# Public Utilities

FORTNIGHTLY

Volume XLVII No. 11 May 24, 1951



PUBLIC UTILITIES REPORTS, INC., PUBLISHERS


*Above, Barber 324-B Automatic Conversion Burner. Tested and certified by AGA Laboratory under new listing requirements.*

*No. 49-113-B Barber Automatic Burner Assembly*

# BARBER Gas Conversion BURNERS

## *Have All These Advantages:*

- **Exclusive patented Barber Impinged Jets, with air-injected vacuum premixture, to get the highest combustion efficiency possible.**
- **High temperature "scrubbing" flame applied directly to walls of fire-box —no spreaders, no refractories.**
- **A sufficient range of sizes, in both round and oblong models, to fit properly the requirements of *all* furnaces and boilers (we do not make the incredible claim that *one* size and *shape* burner will operate efficiently in *all* furnaces and boilers).**
- **The correct design, with the right jets, to operate on *any* type of gas fuel.**
- **The finest automatic controls obtainable.**
- **A reputable manufacturer, with a record of over 30 years' responsibility, to stand behind its products, and with capable Barber installation service available nearly everywhere.**

**With such a widely preferred and plainly superior product offered to you, why take chances with little known and possibly inferior burner units? No other burner burns like a Barber. Buy Barber and you buy the best.**

**We also design, develop, test, and manufacture innumerable types and sizes of burner units for all sorts of gas appliances, for industrial, commercial, and household use. We supply hundreds of appliance makers with these standard or special burners, for all kinds of gas. The inclusion of a Barber unit in any such appliance is an unmistakable symbol of QUALITY. Write for our complete Catalog.**

**THE BARBER GAS BURNER CO., 3682 Superior Avenue, Cleveland 14, Ohio**

# BARBER BURNERS

*For Warm Air Furnaces, Steam and Hot Water Boilers and Other Appliances*

# Public Utilities FORTNIGHTLY

VOLUME XLVII MAY 24, 1951 NUMBER 11

## ARTICLES



## FEATURE SECTIONS



PUBLIC UTILITIES REPORTS, INC., PUBLISHERS

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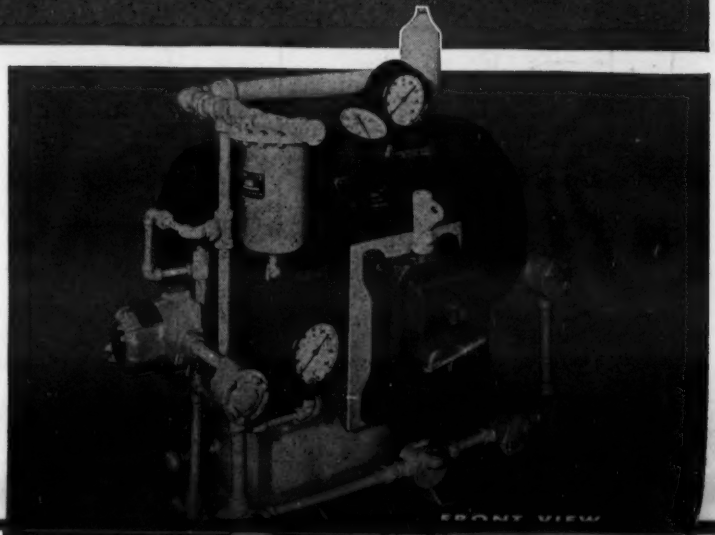
PUBLIC UTILITIES FORTNIGHTLY . . stands for Federal and state regulation of both privately owned and operated utilities and publicly owned and operated utilities, on a fair and nondiscriminatory basis; for nondiscriminatory administration of laws; for equitable and nondiscriminatory taxation; and, in general—for the perpetuation of the free enterprise system. It is an open forum for the free expression of opinion concerning public utility regulation and allied topics. It is supported by subscription and advertising revenue; it is not the mouthpiece of any group or faction; it is not under the editorial supervision of, nor does it bear the endorsement of, any organization or association. The editors do not assume responsibility for the opinions expressed by its contributors.

$1.00 *a Copy*
*26 Issues a Year*
*Annual Subscription Price* $15.00

# Now... a NEW BLAW-KNOX *Portable* FOGGER

## FOR LOCAL DISTRIBUTING POINTS




**Just the size for your smaller City Gate Stations and District Regulator Stations**

And like the larger Blaw-Knox Electroil Fogger, this new model is a *safe, explosion-proof, shop-assem-*

gas distribution problems. The Port-

Electroil Fogger, this new model is a *safe, explosion-proof, shop-assem-*

gas distribution problems. The Portable Fogger produces a stable oil fog in the gas stream . . . safely, automatically and with minimum attendance or supervision. Being a shop-assembled unit it is ready to be connected "as is" to gas and electric power lines quickly and easily. For comprehensive data—

**Write for Bulletin No. 2353.**

1. **Simple to install.**
2. **Easy to operate.**
3. **Temperature control is completely safe and automatic.**
4. **Electrical equipment is explosion-proof.**
5. **It will produce a stabilized fog.**
6. **Wet down existing dust deposits.**
7. **Moisten leather diaphragm.**
8. **It coats inside of pipe with a protective oil film.**


GAS EQUIPMENT DEPARTMENT

**BLAW-KNOX DIVISION**

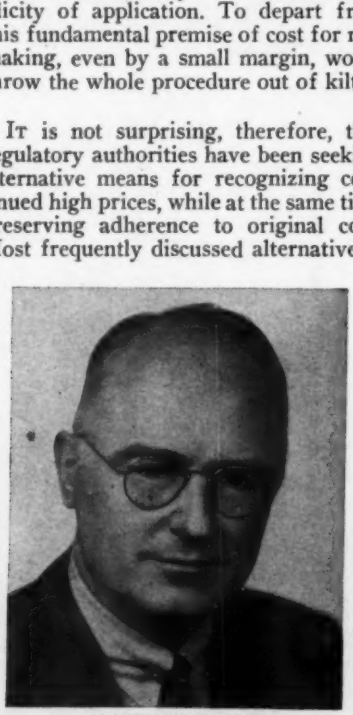
OF BLAW-KNOX COMPANY

2110 FARMERS BANK BUILDING
PITTSBURGH 22, PA.

A PROLONGED period of inflation would put a substantial strain on the rigid adherence to original cost rate making in utility regulation. Regulatory commissions, as well as utility companies, have indicated some concern over the possible outcome of the continued pressure of rising prices on strictly cost rate bases.

THE difficulty is, of course, that the mechanics of the original cost rate base less depreciation have been so well established in many jurisdictions that they cannot easily be modified much less substituted without causing upheavals and dislocations. It is generally agreed that whatever the equities of the situation might be, original cost has at least the virtues of certainty and relative simplicity of application. To depart from this fundamental premise of cost for rate making, even by a small margin, would throw the whole procedure out of kilter.

IT is not surprising, therefore, that regulatory authorities have been seeking alternative means for recognizing continued high prices, while at the same time preserving adherence to original cost. Most frequently discussed alternative is



CLARENCE H. ROSS

C. E. WRIGHT

the introduction of some elasticity in determining the rate of return, quite apart from the rate base itself.

BUT altering the rate of return, although a fairly simple operation of regulatory judgment, has disadvantages and complications of its own. For example, it raises a question in the minds of a great many people, because a liberalized rate of return for utility properties —still based on original cost—might be somewhat more than the return on comparable nonutility properties. The layman may fail to recognize that the profit in nonutility operations may well be based on present plant values.

ANOTHER interesting alternative has been suggested by the author of the leading feature in this issue, CLARENCE H. ROSS, of the Chicago law firm of Daily, Dines, Ross & O'Keefe. He proposes a solution to the problem created in rate making by continued dollar inflation which would work approximately as follows: (1) a rate base expressed in terms of the real value of the dollars prudently invested in utility property, rather than in terms of nominal dollars; (2) a return on and depreciation of such

investment—a return on real dollars invested, rather than the nominal dollar.

THIS is, admittedly, not an orthodox approach. Indeed, it is doubtful if any regulatory commission is at present using any such procedure. But it is seemingly an original and ingenious presentation. MR. ROSS is a graduate of the University of Nebraska (AB, '22) and Harvard University (LLB, '25). Since his graduation he has been engaged in the practice of utility law, mostly in Chicago. He is counsel for the Central Telephone Company and its affiliated companies.

* * * *

FLORIDA is one of the last of the states to hand over the regulation of electric utilities to its state commission. But there has been a special explanation for this delay. For one thing, municipal plants and coöperatives in Florida have been rather apprehensive over the possibility that their respective operations might ultimately be brought under the jurisdiction of the state regulatory body.

ANOTHER complication has been the establishment of what is probably the nation's only county-wide utility commission in Pinellas county (St. Petersburg). But the utilities have not been eager to serve two or more regulatory masters. So when the Dowda Bill to place the electric utilities under the state railroad and public utilities commission was introduced in the Florida legislature, the electric companies were at least not opposed, and there was some indication that they were in favor of the same.

IN this issue (beginning page 674), we bring you an up-to-the-minute description of this recent law. The author is C. E. WRIGHT, a veteran newspaperman, who has served in former years on Detroit, Toledo, Chicago, and Minneapolis papers. For twenty-two years he was on the staff of *Iron Age*, and for five years was managing editor of that publication.

* * * *

WE conclude in this issue the 2-part series, entitled "Transit—A Unique Business," by JOHN H. BICKLEY, until recently president of the Louisville Railway Company. A biographical sketch of MR. BICKLEY was given in this department of our May 10th issue. According to MR. BICKLEY, the transit business is unique because it knowingly discourages patronage, charges higher prices because some patrons have deserted service, or charges a uniform price regardless of the amount of goods or services sold to individual customers. In view of its peculiar economic position, the modern transit company is often forced to do all these things.

* * * *

M. R. KYNASTON, Washington business analyst, has written a critical analysis of past blunders and other excesses in Federal spending for projects of strictly local benefit or no benefit at all. His article, entitled "How Pork Fattens the Federal Budget" (beginning on page 688), describes some of the more flagrant examples of Federal expenditures under the guise of public works. There is a special introductory message from U. S. Senator Byrd of Virginia, head of the economy bloc in Congress.

THE next number of this magazine will be out June 7th.

The Editors

JOHN H. BICKLEY

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# Coming IN THE NEXT ISSUE

★

### IN WAR OR PEACE—ELECTRIC SERVICE RECORD REMAINS WORLD'S FINEST

L. V. Sutton, president of the Edison Electric Institute as well as head of the Carolina Power & Light Company, reviews the performance of the electric companies in meeting the demand for power during the defense emergency.

### AMERICAN POWER MOBILIZES—FOR FREEDOM!

As a former executive in the great electric manufacturing industry, Charles E. Wilson, head of our nation's mobilization effort, brings a special understanding to the problems confronting the electric power industry during this critical period. This article contains his personal message to the industry regarding the progress being made in preparing the country for peace or war.

### PUBLIC POWER'S REVOLVING DOOR TO THE U. S. TREASURY

Frank M. Wilkes, president of Southwestern Gas & Electric Company, has made an analysis of the problems which menace the tax-paying electric utility industry. The "revolving funds" of public power get special attention.

### AN INDUSTRIALIST LOOKS AT THE PUBLIC UTILITY INDUSTRY

A nationally known business leader, Harry A. Bullis, chairman of the board of General Mills, Inc., reviews the record of the public utility industry and its sensitiveness to the burden of inflation.

### PLANNING A MODERN UTILITY MERGER

Earle J. Machold, president of Niagara Mohawk Power Corporation, has written an account of the consolidation of one of the country's most highly integrated utility systems and its effect upon the public interest.

### STEEL, OIL, WHEELS, AND ELECTRIC POWER

Big business is more than a group of corporations. T. S. Petersen, president of Standard Oil Company of California, tells us how it has become a method of operation—a technique by which the nation gets a lot of its daily work done.

### PUBLIC INFORMATION PROGRAM MEETS THE CHALLENGE

Public opinion polls confirm increasingly the impressive gains of investor-owned electric companies' information program. James W. Parker, president of The Detroit Edison Company and also chairman of the steering committee of the electric companies' Public Information Program, gives us a progress report on this important work.

### WHAT A STATE COMMISSION DOES—AND WHY

The chairman of the Wisconsin Public Service Commission, John C. Doerfer, has written an analysis of the functions performed by the modern regulatory commission in keeping electric and other utility service up to standard.

### STOCKHOLDER ORGANIZATIONS AND THE UTILITY COMPANIES

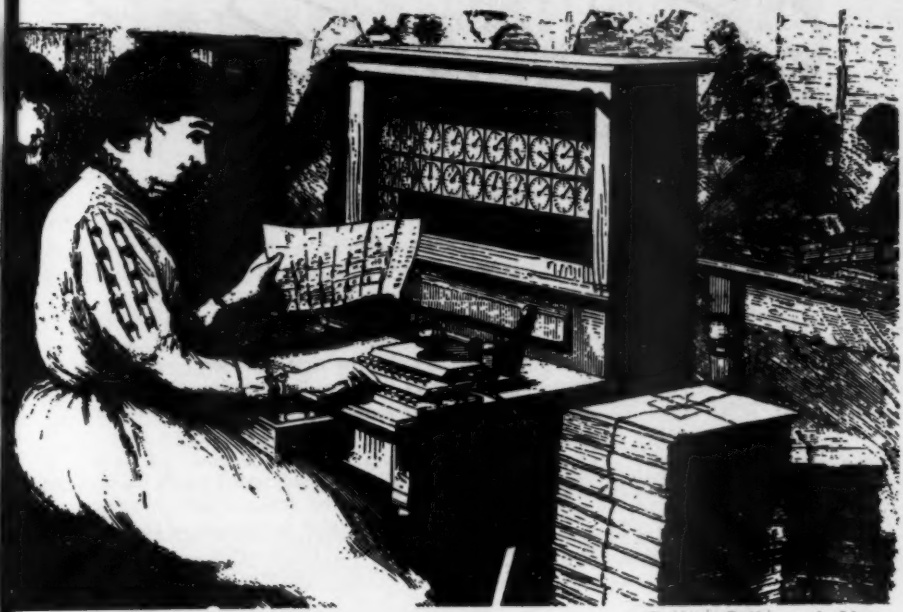
M. H. Frank, vice president of the Wisconsin Power & Light Company, gives reasons for the community of interests between the corporation and its owners.

### PRIVATE POWER PLANS IN MISSOURI

Missouri keeps pace with the rest of the nation in customer growth. James M. Stafford, Jr., relates some facts about meeting power demands of rural coöperatives in that state.

★

Also . . . ***Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.***



*Courtesy Bettmann Archives*

# Gay Nineties Review

THIS old print shows a young woman operating one of the electric computing machines during the U. S. Census in 1890.

Each time she depressed a key on the table, the impulse would be registered on one of the corresponding dials on the board in front of her. This cumbersome machine, no doubt, saved many hours and dollars for Uncle Sam.

Great strides have been made in counting machines since the Gay Nineties.

For the utility field, for example, there is this ingenious computer—the Bill Frequency Analyzer. It can help give you an accurate picture of your consumers' usage situation in a short time.

The Bill Frequency Analyzer classifies as many as 200,000 bills in a single day. It can save you approximately ⅓ the cost of having the work done in your own offices.

Why not find out more about this remarkable service?

**Send for FREE booklet**

"The One Step Method of Bill Analysis" tells more about this accurate and economical method of compiling consumers' usage data. Why not send for it now?

**Recording and Statistical Corporation**

100 Sixth Avenue, New York 13, N. Y.

# Remarkable Remarks

*"There never was in the world two opinions alike."*
—MONTAIGNE

---

GEORGE F. SULLIVAN
*Managing editor, "Iron Age."*

"There's going to be the biggest rat race we have seen in ten years when the government's Controlled Materials Plan comes in the middle of the year."

MARK SULLIVAN
*President, Pacific Telephone & Telegraph Company.*

"Many people now elect to advance or recede with a group, for in that way lies security. Competition is reduced for those who seek real individual leadership."

ARTHUR H. CARHART
*Conservationist.*

"This nation has reached a point where the conflicting, patchwork, competitive activities of all agencies and interests must be pulled together in a basic water use plan."

VALLERY WHITE
*Executive assistant and senior evaluation engineer, Southern California Edison Company.*

"The stockholder, who is the real owner of industries and businesses of the nation, will be a ready customer for additional securities if he is a satisfied, well-informed owner."

MAXEY JARMAN
*Chairman of the board, General Shoe Corporation.*

"It seems to me that what America needs today is to turn loose business ingenuity to increase production. We need more effort on how to produce more of all kinds of goods rather than more controls to conceal symptoms of inflation. More production is, by all odds, the best way to beat inflation."

HOWARD S. CULLMAN
*Chairman, Port of New York Authority.*

"There has been far too much uneducated guessing on the St. Lawrence seaway project and far too much misinformation from those who are sponsoring this project. It is high time that a dispassionate and intelligent analysis be made as to the cost, possible utilization, depth of the proposed seaway, potential revenue, operating expenses, and savings to users."

WALTER S. HALANAN
*President, Plymouth Oil Company.*

"The oil industry is in full accord with any over-all governmental policy designed to prevent disastrous inflation by freezing prices and wages during the national emergency. It will give its full support to any such program that is applied to all segments of the economy without fear or favor. However, the industry objects most strenuously to being singled out for whimsical freezing of the price of a commodity like crude oil, the average price of which is less today than in 1948."

FRIEDA B. HENNOCK
*Member, Federal Communications Commission.*

"Educators can bring a great deal to television. It was the educators in the early days of radio that pioneered that new medium. Their contribution to television can be indefinitely superior."

KENNETH MCFARLAND
*Superintendent of schools, Topeka, Kansas.*

"Effective public relations must be genuine because, ultimately, only those individuals and organizations are successful who genuinely serve. Be genuine with the public and the public will be genuine with you."

M. S. RUKEYSER
*Columnist.*

"Mislabeling and inaccurate semantics, though perhaps helpful in exploiting suckers, impair intelligent formulation of policies and procedures. The country has been through an extended era of avoidance of calling a spade a spade."

W. W. HORNER
*Engineering consultant.*

"The government has come to be recognized as an agency for social and economic action which need not follow the rules of the private capital markets in order to obtain the necessary capital or to make investment decisions."

LOUIS H. BAUER
*Chairman of the board, American Medical Association.*

"There is a growing public awareness that Federal subsidy has come to be a burden, not a bounty, for it is bringing intolerable increases in taxation, and is dangerously increasing Federal controls over our institutions and the lives of our people."

HENRY FORD II
*President, Ford Motor Company.*

"Too many businessmen were thinking of their own welfare first and the welfare of the nation second. Recent events indicate that the American people do not intend to have the terms of their progress dictated by labor unions any more than by businessmen."

FULTON LEWIS, JR.
*Columnist.*

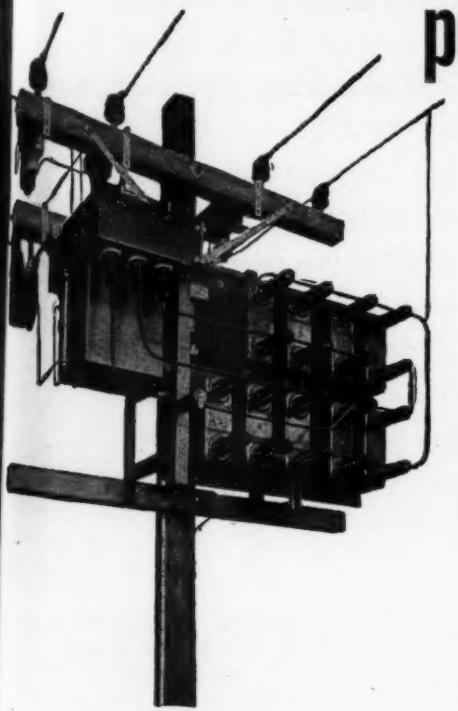
"Economists agree that excessive government spending is the most powerful of all inflationary forces. It increases the government's drain on available materials, and at the same time pours additional money into the hands of the public to bid for the short supplies left for civilian consumers."

EDITORIAL STATEMENT
*Times-Herald, Washington, D. C.*

"In Britain the Socialists are biting out 41 per cent of the people's earnings, or $1.23 of each $3 earned. This heavy bite . . . has discouraged incentive and enterprise and instead of lifting, has diminished an already low standard of national life. Yet this is what the Socialists fight to hold, because it bolsters the cause of state rule. The Socialists dress up their bureaucracy as spreading wealth, but this is fakery. What they have done is to share the poverty, as the English people are learning. And we are now face to face with the same proposition."

# NEW

# G-E switched capacitors for pole mounting



The new pole-mounted equipment consists of nine 25-kvar capacitors in a steel rack equipped with cross-arm hangers; a solenoid-operated oil switch; a potential transformer; and an automatic control. The entire equipment is factory-wired and assembled—shipped as a unit, and ready for mounting when received.

## *Low Cost — Light Weight Factory Assembled*

With this equipment you can get switched capacitors—pole mounted—for your distribution circuits—at a lower cost per kvar than ever before.

It's the new G-E open-type 225-kvar auto-switch capacitor equipment. Compact, lightweight (only 950 pounds)—designed specifically for pole mounting, it is available for 4160-, 4800- and 7200-volt circuits, three-phase.

Automatic controls are in a separate housing for mounting at the base of the pole. Inspection and servicing are easy.

Installation costs are low—the equipment is shipped completely wired and assembled. Simply mount the equipment on the pole and connect the controls.

Your nearest G-E Apparatus Sales office has full information. *Apparatus Dept., General Electric Company, Schenectady 5, New York.*

407-28E

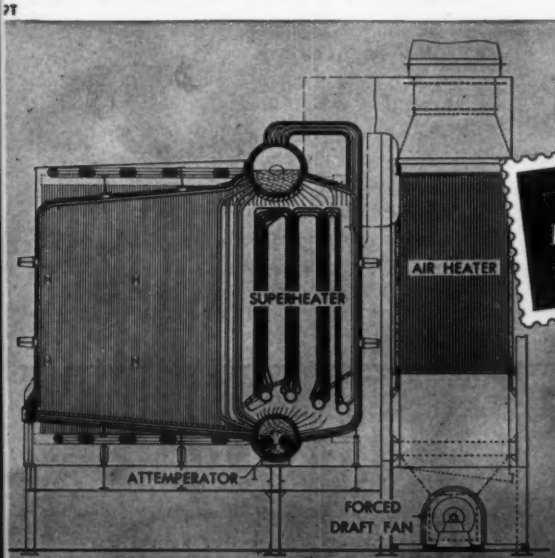
GENERAL ELECTRIC

# PRESSURE-FURNACE BOILERS
## aid economy of Knox Lee Power Plant

Added to the economy of outdoor construction at Southwestern Gas and Electric Company's Knox Lee Power Plant are *further* savings in initial, operating, and maintenance costs — direct results of B&W's Pressure-Furnace Boiler design.

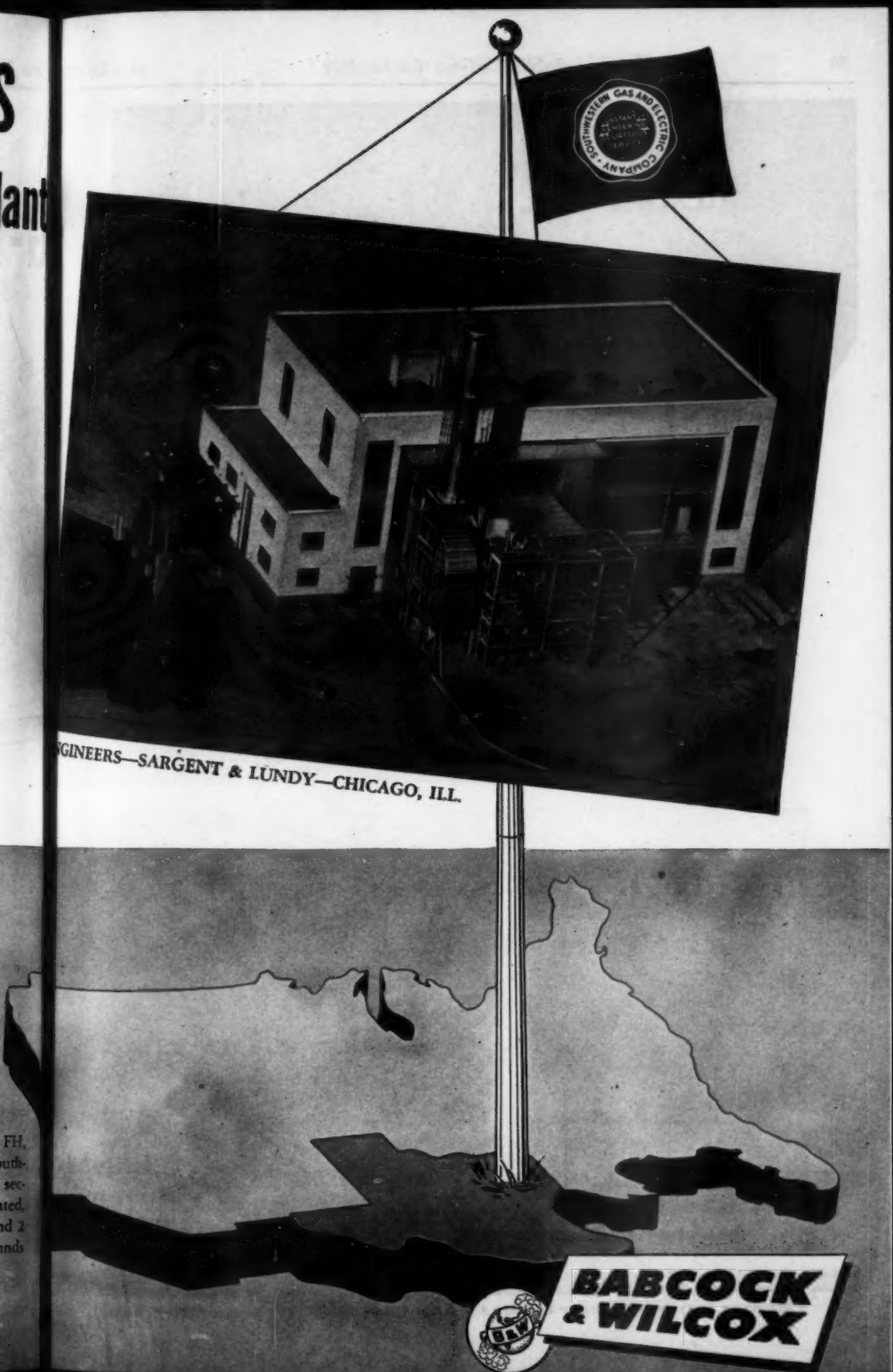
Induced-draft fans are completely eliminated, and fan-power demand-charge materially reduced; air infiltration is prevented, with consequent improved boiler efficiency; one-point draft control permits quick, easy adjustment; design is simplified, with lower initial cost of stack and duct arrangement.

The Knox Lee unit is one of more than 50 B&W Pressure-Furnace boilers already in successful operation, on order, or building.




*A Product of B&W Engineering for Economy*

B&W Integral-Furnace Boiler, Type FH, now serving Knox Lee Power Plant of Southwestern Gas and Electric Company. A second identical unit is soon to be operated, and a third unit is on order. Units 1 and 2 have total steam capacity of 600,000 pounds per hour at 875 psi and 910°F.


SOUTHWESTERN GAS AND ELECTRIC COMPANY
GINEERS—SARGENT & LUNDY—CHICAGO, ILL.
BABCOCK & WILCOX

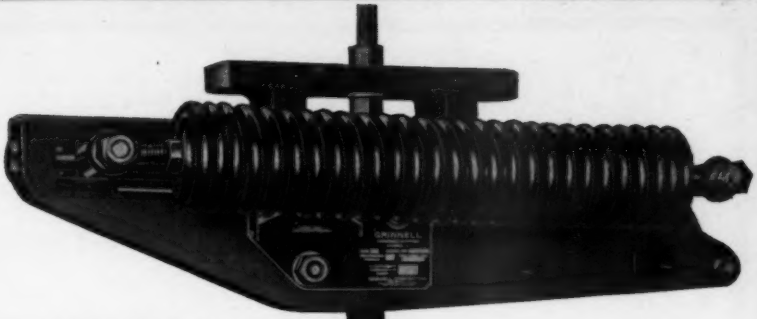
*Gas Extensions* ...services too!

**CUT YOUR MACHINE INVESTMENT WITH VERSATILE**

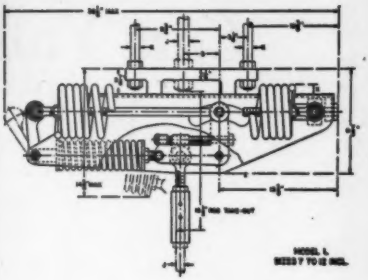
# CLEVELAND TRENCHERS

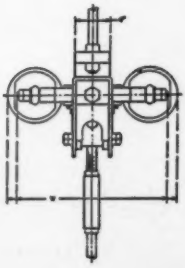
**Here's how to stretch your equipment dollar—do all your distribution trenching with one machine... the CLEVELAND "Baby Digger" Model 92. Trench depth: up to 5 full feet. Trench widths: from 10″ to 20″. Compact and highly maneuverable, it works handily in the tightest places, puts the edge of a 20″ trench within 17″ of a side wall. Loading on or off its tilt-bed "T-5" trailer in 5 minutes, it jumps quickly between jobs. Like its famous bigger brothers, the "92" is dependably fast and rugged. Year 'round digging season. See your distributor today.**

**THE CLEVELAND TRENCHER CO.**
20100 ST. CLAIR AVE., CLEVELAND 17, OHIO



## The New Model L
# GRINNELL
# CONSTANT-SUPPORT





- 16 spring sizes to meet the entire range of loads from 141 lbs up to 19,530 lbs.
- 3 physical structures to accommodate total travel requirements of 2½ inches, 5 inches and 10 inches maximum.
- Wider load range for each hanger size.
- Greater total travel.
- Field load adjustment can be accomplished by turning a single bolt.
- The total travel of sizes 1 through 12 inclusive may be changed in the field.
- The hanger is nearly symmetrical and the load coupling is suspended from the center of the hanger.

Grinnell Constant-Supports maintain full safety factor in supporting high temperature, high pressure piping. They provide constant support to piping subject to vertical movement, in all positions of travel. Non-resonant. Mass-produced from standard precision parts. Individually calibrated for each installation. Minimum headroom required. Data sheets available.

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**WHENEVER PIPING IS INVOLVED**

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Cleveland • Cranston • Fresno • Kansas City • Houston • Long Beach • Los Angeles • Milwaukee • Minneapolis • New York
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# When couplings are needed . . . . CAPITOL makes them all

uplings are different—there are more n thirty different types. The right pling in the right place means long, uble-free service. The Capitol cou- ng you specify is made for the job— u can depend on it.

blic Utilities, Railroads, and Industry k to Capitol for specialized needs. pitol couplings are made to the specifications of the American Iron and Steel Institute, the Association of American Railroads, and the American Petroleum Institute. This means top performance under exacting conditions.

Capitol dependability is backed by a quarter-century of service through recognized wholesalers.

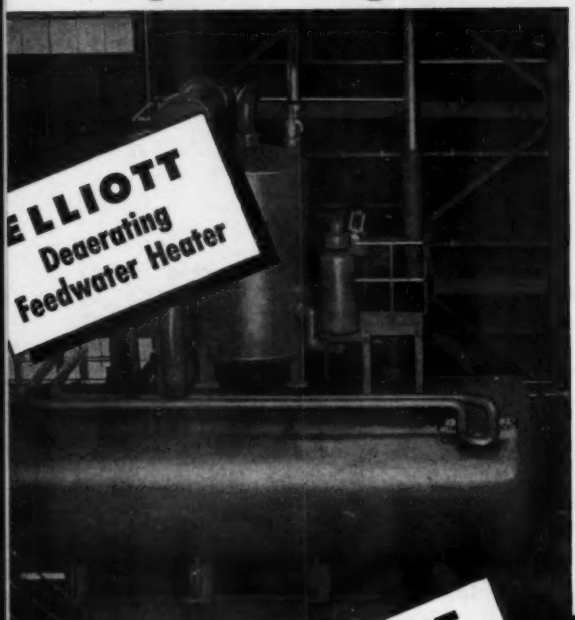
*Specify* Capitol Couplings

CAP CAPITOL
MFG. & SUPPLY CO.
COLUMBUS, OHIO

UPLINGS — NIPPLES — UNIONS — RADIANT HEAT FITTINGS
NACE COILS — WELL SUPPLIES — STEEL PIPE FITTINGS

# ELLIOTT

## . . . pacemaker i
## power generating equipmen





This photo shows Elliott team at its best — three units vital to nomical power generation, groupe a single utility plant. In the same p although not shown in the photo, also an Elliott surface condenser an Elliott evaporator pre-heater.

Wherever quality performance valued you are likely to find the El nameplate on a wide variety of m power plant equipment.

**ELLIOTT COMPA**

**Deaerator and Heater Dep**

**JEANNETTE, PA.**

Plants at: JEANNETTE, PA. • RIDGWAY, AMPERE, N. J. • SPRINGFIELD, NEWARK, N. J.

DISTRICT OFFICES IN PRINCIPAL CI

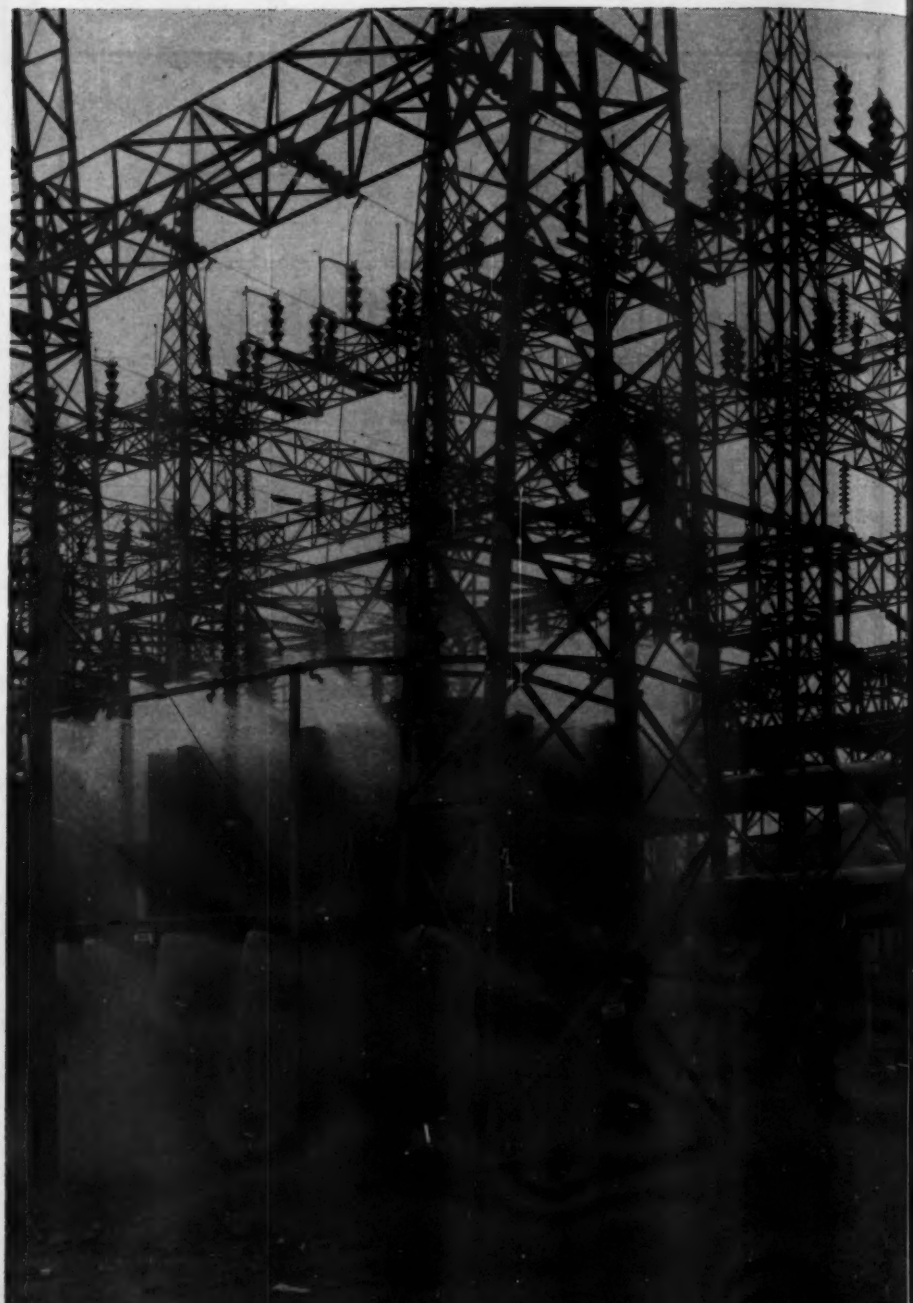
# Utilities Almanack

## May

| | | |
|---|---|---|
| 24 | Th | ¶ *Pennsylvania Electric Association, Prime Movers Committee, begins meeting, Bellefonte, Pa., 1951.* |
| 25 | F | ¶ *National Association of Electrical Distributors ends annual convention, Atlantic City, N. J., 1951.* |
| 26 | Sa | ¶ *American Gas Association will hold executive conference, White Sulphur Springs, W. Va., June 11, 12, 1951.* |
| 27 | S | ¶ *American Society of Mechanical Engineers will hold semiannual meeting, Toronto, Canada, June 11–15, 1951.* |
| 28 | M | ¶ *American Society of Civil Engineers will hold summer meeting, Louisville, Ky., June 13–15, 1951.* |
| 29 | Tu | ¶ *Institution of Gas Engineers begins meeting, London, England, 1951.* |
| 30 | W | ¶ *Washington Independent Telephone Association and Oregon Independent Telephone Association will hold meeting, Portland, Ore., June 15, 16, 1951.* |
| 31 | Th | ¶ *Natural Gas and Petroleum Association of Canada begins annual convention, Hamilton, Ontario, Canada, 1951.* |

## June

| | | |
|---|---|---|
| 1 | F | ¶ *American Gas Association begins executive conference, Chicago, Ill., 1951.* |
| 2 | Sa | ¶ *National Sales Executives begin convention, New York, N. Y., 1951.* |
| 3 | S | ¶ *Illuminating Engineering Society, National Council, will hold meeting, New York, N. Y., June 14, 1951.* |
| 4 | M | ¶ *Edison Electric Institute begins nineteenth annual convention, Denver, Colo., 1951.* |
| 5 | Tu | ¶ *Inst. of Cooking & Heating Appliance Manufacturers begins meeting, Cincinnati, Ohio, 1951.* |
| 6 | W | ¶ *New York State Telephone Association begins annual convention, Elmira, N. Y., 1951.* |



*Courtesy, Pennsylvania Electric Company*

Fire Prevention Demonstration

Public Utilities
FORTNIGHTLY

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# Compensating for Dollar Inflation In Rate Regulation

**A proposed solution to problems created in rate making by the continued inflation of the dollar.**

BY CLARENCE H. ROSS*

ONE of the most difficult problems of the present-day rate case is that of devising a method acceptable to the commissions and the courts for the determination of (1) a rate base expressed in terms of the real value of the dollars prudently invested therein rather than in terms of nominal dollars, and (2) a "return on" and "depreciation of" such investment in terms of the real values invested rather than in terms of nominal dollars. This form of approach requires a variation in the application of the original cost theory from that currently followed by many Federal and state commissions and courts. The approach proposed does not suggest the abandonment of the original cost theory but only the equitable application thereof under present-day circumstances.

One of the most significant statements contained in the famous case of Federal Power Commission *v.* Hope Nat. Gas Co. (1944) 320 US 591 [51 PUR NS 193], is, in my opinion, found on page 603:

*For personal note, see "Pages with the Editors."

> The rate-making process under the act; *i.e.*, the fixing of "just and reasonable" rates, involves a balancing of the investor and consumer interests. Thus we stated in the Natural Gas Pipeline Company Case that "regulation does not insure that the business shall produce net revenues." 315 US at p. 590. But such considerations aside, the investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. Cf. Chicago & G. T. R. Co. *v.* Wellman (1892), 143 US 339, 345, 346, 36 L ed 176, 12 SCt 400. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital. See Missouri ex rel. Southwestern Bell Teleph. Co. *v.* Public Service Commission, 262 US 276, 291, 67 L ed 981, PUR 1923C, 193 . . . (Mr. Justice Brandeis concurring).

COMPARE this statement with that made by Mr. Justice Brandeis, almost thirty years ago, on page 291 of his concurring opinion in Missouri ex rel. Southwestern Bell Teleph. Co. *v.* Public Service Commission, 262 US 276, PUR 1923C 193, as follows:

> . . . The compensation which the Constitution guarantees an opportunity to earn is the reasonable cost of conducting the business. Cost includes not only operating expenses, but also capital charges. Capital charges cover the allowance, by way of interest, for the use of the capital, whatever the nature of the security issued therefor; the allowance for risk incurred; and enough more to attract capital. The reasonable rate to be prescribed by a commission may allow an efficiently managed utility much more. But a rate is constitutionally compensatory, if it allows to the utility the opportunity to earn the cost of the service as thus defined.
>
> To decide whether a proposed rate is confiscatory, the tribunal must determine both what sum would be earned under it, and whether that sum would be a fair return.

Thus, these cases indicate that the rate of return should be commensurate with returns on investments in other enterprises having corresponding risks and will be compensatory only if the return is sufficiently adequate to permit the company to obtain the additional capital required by its business, presumably at a price which will result in no dilution of the capital presently invested.

JUST as the doctrine of the majority opinion of the Hope Natural Gas Case with respect to rate base and rate of return rests upon the concurring opinion of Mr. Justice Brandeis in the Southwestern Bell Telephone Case, so does the doctrine of the Hope Natural Gas Case with respect to depreciation rest upon the dissent of Mr. Justice Brandeis in United R. & Electric Co. *v.* West, 280 US 234, 259, 288, PUR 1930A 225.

Because of this conclusion that the present-day thinking of the Federal commissions and the United States Supreme Court, as epitomized in the Hope Natural Gas Case, with respect to rate base, "return on," and "depreciation of" is based on these famous dissenting opinions, I have made

an analysis of the premises of these opinions.

From this analysis, my conclusion is that these cases are based on the premise that the value of the dollar current from year to year in which the return is paid and in which depreciation is computed will have an *average value* equivalent to that of the related dollar invested in the rate base. It is only on this basis that the *value* of the property being depreciated can be restored to the company through annual allowances for depreciation under the original cost theory. Moreover, it is only on this basis that an investor, under the original cost theory, can receive a return commensurate with the value of his capital at the time it was invested in the enterprise. It is only by giving recognition to the difference between (1) the purchasing power of the dollar invested in the rate base and (2) the dollar in which the return is being paid and annual allowance for depreciation is being computed, that the premise, upon which these cases are based, can be met.

BECAUSE the original cost theory has, so far, been unable to compensate for the effect caused by the inflation in the monetary unit in which "return on" and "depreciation of" is computed, the credibility of the original cost theory is being increasingly questioned. As stated above, the original cost theory, as presently applied, is only valid if the price fluctuations now being experienced are part of a cycle of a regular pattern of a reasonable duration, over the life of which prices will average out at a level equivalent to the average value of the "original cost" dollar invested. In the case of "return on," this cycle certainly should not extend beyond a decade, which is a substantial portion of the life of an investment, or in the case of "depreciation of" the cycle could not reasonably extend beyond the average service life of the related property.

THE utilities, and those commissions which overtly concur in the original cost theory but which wish to preserve the integrity of the public investment in the utilities, are continually seeking ways of ameliorating the unjust effect of the computation in current dollars of "return on" and "depreciation of" an original cost rate base. One approach to this is to seek to maintain the financial integrity of the utility by adopting the theory that the utility is entitled to a rate of return "sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital" without dilution therein.

¶ "WHERE *the original cost of the plant account of a utility is roughly equivalent to the cost stated in terms of the 1932 dollar (which might be possible if a utility had made only a minority of its plant construction during inflation), the present current dollar allowances for annual depreciation over the service life of such property would be approximately twice those computed in the original cost dollars with which the property was acquired.*"

THE supreme judicial court of Massachusetts, in New England Teleph. & Teleg. Co. *v.* Department of Public Utilities, decided February 28, 1951, held that on a 45 per cent debt ratio "a net return of less than 8.5 per cent on stock capital or less than 6.23 per cent on the sum of both kinds of capital is below the level where confiscation begins." On reinvested surplus, which the court found was neither debt capital nor stock capital, but which had been derived from both kinds of capital, it held that a lower rate of return than the composite rate, or 6.23 per cent, would be confiscatory. The court stated:

> It is repeatedly stated or implied in the decided cases, so far as we know without contradiction, that one of the constitutional rights of a regulated utility is the right to earn a sufficient return to maintain its credit and to obtain additional capital when needed to enable it to serve its public.

The court cited in support thereof, the Hope Natural Gas Case and the concurring opinion referred to above of Mr. Justice Brandeis in Missouri ex rel. Southwestern Bell Teleph. Co. *v.* Public Service Commission, 262 US 276.

The public service commission of Wisconsin, in the case of LaCrosse Telephone Corp. (1950) 2-U-3249, 85 PUR NS 401, acquiesced in the contention of the company that it needed a return of 10 per cent on its equity capital on a 52 per cent debt ratio in order to permit the company to attract additional equity capital without dilution of that already invested. This was equivalent to a composite return on capitalization of 6.53 per cent.

This approach is sometimes called the "cost of capital" or "earnings requirement" approach. The theory is that so long as the utility is able to raise additional capital without obvious dilution of existing capital, the financial integrity of the utility is assured. This fails to give recognition to that standard by which "the return to the equity owner should be commensurate with the return on investments in other enterprises with corresponding risks." All that the earnings requirement theory grants is enough return to make up for the deficiency in return in so far as it is recognized by the investor. No attempt is made to measure the real deficiency in the return.

ANOTHER approach to the amelioration of the unjust effect of the strict application of the original cost theory is that of recognizing other factors in the rate base, such as trended original cost (based on construction indices) and reproduction cost. This gives the commission a basis for granting a return not justified by the strict application of the original cost theory. In these cases the original cost theory is shown to produce an unreasonably low return in terms of the purchasing power of the dollar received for return and depreciation. The extent of the inequity produced by inflation in the monetary unit is measured by use of reproduction cost or trended original cost indices as measuring sticks.

Attempts have also been made from time to time to measure the inequity of the original cost rate base by the use of various indices. The usual present-day approach consists of restating

## The Double Puzzle in Every Rate Case

*"ONE of the most difficult problems of the present-day rate case is that of devising a method acceptable to the commissions and the courts for the determination of (1) a rate base expressed in terms of the real value of the dollars prudently invested therein rather than in terms of nominal dollars, and (2) a 'return on' and 'depreciation of' such investment in terms of the real values invested rather than in terms of nominal dollars."*

the plant account and rate base in terms of the current dollar by use of these indices. This method has never had the success it deserves, in my opinion, largely because the increase in the rate base resulting from the use of this method has been misinterpreted by rate-making bodies as a form of "write-up," which it is not.

IN times of falling prices the commissions have not always been so reluctant to restate the rate base in terms of an index. See *Re* Chesapeake & Potomac Teleph. Co. (West Case) before the Maryland Public Service Commission (1933) 1 PUR NS 346, and St. Petersburg Merchants Association et al. *v.* Peninsular Teleph. Co. (1934) Docket No. 1155, before the railroad commission of the state of Florida. In the indices used in both these cases the 1932 dollar was used in stating the rate base and in both cases it was proposed that the return be paid in dollars current from time to time, thus failing to give recognition to the difference in purchasing power between the dollar invested and the dollar in which the return was to be paid. Because of the failure of the West Case to give recognition to this fact, it was reversed by the United States Supreme Court in West *v.* Chesapeake & Potomac Teleph. Co. (1935) 295 US 662, 8 PUR NS 433. The order of the commission in the West Case includes an extensive discussion of the use of indices and is of special interest in that Charles W. Smith, chief of the bureau of accounts, finance, and rates of the Federal Power Commission, was then chief auditor of the Maryland commission. In this capacity, Mr. Smith prepared and applied the indices relied upon by the commission.

IN the rate case of Middle States Telephone Company of Illinois (Middle States), Case No. 39022,

now pending before the Illinois Commerce Commission, I have made a somewhat different approach to the measurement of the inequity of the current application of original cost theory which I think has important features not heretofore developed. In this approach the difference in purchasing power between the dollar invested, and the dollar in which the return is to be paid, is recognized and computed. This approach works equally well whether subsequent periods be those of inflation or deflation of the dollar. What I have done in the Middle States Case is to restate the rate base and earnings requirement in terms of the 1935-39 dollar by use of the commodity index of the Bureau of Labor Statistics of the Department of Labor, and also in terms of the 1939 dollar by use of an index recently adopted by the Department of Commerce in restating the gross amount of the national product of the country. The table on page 669 sets forth this restatement of the plant account.

THIS approach avoids an undesirable feature of the orthodox method of determining the rate base by the use of indices in that here the plant account is written down instead of being written up. Thus the possibility of misinterpretation of this method as a "write-up" is avoided. Moreover, once the rate base is determined in terms of the constant dollar by this write-down, it need never be changed, whereas under the orthodox application of the index method, a different rate base results with every future change in the index. This results in a fluctuating rate base for identical property, which fact in itself suggests instability. The proposed constant dollar rate base meets the test spelled out by Mr. Justice Brandeis in Missouri ex rel. Southwestern Bell Teleph. Co. *v.* Public Service Commission, 262 US 276, page 307 [PUR 1923C 193], as follows:

> It (the rate base) would not fluctuate with the market price of labor, or materials, or money. It would not change with hard times or shifting populations. It would not be distorted by the fickle and varying judgments of appraisers, commissions, or courts. It would, when once made in respect to any utility, be fixed, for all time, subject only to increases to represent additions to plant, after allowance for the depreciation included in the annual operating charges.

NOTE that the amount of accrued depreciation deducted in the Middle States Case from the restated rate base was the amount shown per books after restatement into terms of the same dollar in which the rate base was restated. It is recognized that this restatement of accrued depreciation is only valid on the basis that the average value of the dollar represented in the depreciation reserve is equivalent to the average dollar included in the gross plant account. While it is very unlikely that these average values are the same, it is not likely in a utility property that the difference would be material.

All subsequent additions to or retirements of the gross plant account, for rate-making purposes, would, of course, be stated in terms of the constant or base dollar and thus there would be no necessity for any restatement or redetermination at any later

date of the rate base except for actual intervening changes in the property itself.

In the Middle States Case an earnings requirement of $363,035.95 was presented which was determined as follows: At October 31, 1950 (the closing date for the rate case), the company's capitalization consisted of outstanding bonds of $3,443,000, temporary parent company advances of $600,000, preferred stock of $600,000, common stock of the par value of $1,347,325, premium on common

MIDDLE STATES TELEPHONE COMPANY OF ILLINOIS

Statement Showing Telephone Plant in Service at Cost As Reflected on the Company's Books Of Account and in 1935-1939 Dollars (Note 1) and 1939 Dollars (Note 2)

| Acct. No. (a) | Description (b) | Telephone Plant in Service 10/31/50 Per Books (c) | 1935-39 Dollars (Note 1) (d) | 1939 Dollars (Note 2) (e) |
|---|---|---|---|---|
| 207 | Right of way | $ 27,469.09 | $ 22,220.84 | $ 22,537.53 |
| 211 | Land | 49,648.14 | 38,073.83 | 37,767.98 |
| 212 | Buildings | 163,845.08 | 147,573.20 | 131,614.58 |
| 221 | Central office equipment | 2,300,643.30 | 1,366,739.04 | 1,293,842.11 |
| 231 | Station apparatus | 899,530.07 | 639,667.23 | 611,315.53 |
| 232 | Station installations | 271,799.54 | 193,211.89 | 184,673.81 |
| 233 | Drop and block wires | 273,925.58 | 174,604.81 | 163,945.24 |
| 234 | Private branch exchanges | 106,439.48 | 71,591.94 | 68,218.69 |
| 235 | Booths and special fittings | 7,905.39 | 5,946.78 | 5,721.65 |
| 241.1 | Exchange pole lines | 498,302.24 | 365,487.65 | 351,509.06 |
| 241.2 | Toll pole lines | 47,579.00 | 42,686.05 | 41,993.33 |
| 242.1 | Aerial cable | 882,552.49 | 584,994.55 | 557,031.56 |
| 242.2 | Underground cable | 683,668.85 | 449,108.71 | 433,540.13 |
| 242.3 | Buried cable | 32,067.02 | 22,980.92 | 22,256.94 |
| 243.1 | Exchange aerial wire | 97,143.15 | 76,147.98 | 73,872.29 |
| 243.2 | Toll aerial wire | 18,264.88 | 15,456.95 | 14,942.17 |
| 244 | Underground conduit | 475,855.03 | 334,666.49 | 332,541.86 |
| 261 | Furniture and office equipment | 57,675.23 | 41,185.58 | 39,543.64 |
| 264 | Transportation equipment | 93,831.73 | 58,737.30 | 55,146.64 |
| 265 | Tools and work equipment | 24,388.94 | 16,562.95 | 15,789.25 |
| | Total | $7,012,534.23 | $4,667,644.69 | $4,457,803.99 |
| | Depreciation reserve at 14.8397% | 1,040,637.40 | 692,664.47 | 661,524.74 |
| | Balance | $5,971,896.83 | $3,974,980.22 | $3,796,279.25 |
| | Contributions for telephone plant, .420556% | $ 29,491.62 | $ 19,630.06 | $ 18,747.56 |
| | Net property | $5,942,405.21 | $3,955,350.16 | $3,777,531.69 |

Notes: Column (c) gives the company's telephone plant in service as of October 31, 1950, by classified accounts.

(1) The property in service in each of the above accounts at October 31, 1950, was segregated into the years in which such property was installed from 1927 to date. The book cost for each of such years was converted into cost expressed in terms of the 1935-39 dollar by use of the "Consumers' Price Index for Moderate Income Families in Large Cities" of the Bureau of Labor Statistics, U. S. Department of Labor (BLS index). The total for all such years for each account is shown in column (d).

(2) In column (e) is shown the total of the book cost for each of the years 1927 to date for each of the accounts expressed in terms of the 1939 dollar by use of the price index used by the office of business economics of the U. S. Department of Commerce in "Estimates of Gross National Product in Constant Dollars, 1929-49," January, 1951, *Survey of Current Business* (monthly publication of the Department of Commerce).

stock of $232,680, and earned surplus of $334,074.58. Annual interest charges on bonds and advances and preferred stock dividends amounted to $171,628.

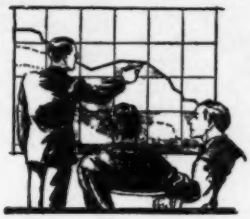
The company took the position that, in order to permit it to obtain the additional capital required by its business without dilution of the capital presently invested, it required a return of 10 per cent on the book value of its common stock ($1,914,-079), or a return of $191,407.95. The sum of $171,628 and $191,407.95 results in the foregoing "earnings requirement" (net operating earnings after taxes, but before interest) of $363,035.95. The propriety of this return was tested by various considerations, such as the level of customer rates which would be required to produce the necessary revenue. The adequacy of this return was also measured by restating the rate base and the earnings requirement in terms of a dollar of a constant value. The exhibit introduced in the Middle States Case showing this restatement of its rate base and earnings requirement was substantially as shown in the table on page 671.

(In the Middle States Case the exhibits on pages 669 and 671 were introduced and identified for the record on February 6, 1951, but will not be offered in evidence until completion of cross-examination.)

THE first column shows that the earnings requirement of $363,-035.95 stated in terms of current dollars, when related to the rate base stated per books, results in a return of 5.78 per cent. The second column shows that the requirement of $363,-035.95 restated in terms of the 1935-39 (BLS) dollar, when related to the rate base also stated in terms of the 1935-39 (BLS) dollar, results in a return of 5.05 per cent, and the third column shows that when the requirement is restated in terms of the 1939 (Department of Commerce) dollar, when related to the rate base also stated in terms of the same dollar, the return is 5 per cent.

The modest amount of the difference in these various rates of return is explained by the fact that well over one-half of the plant account of Middle States has been installed within the last four years, for which payment was made in dollars having an index value not too far removed from that in which the earnings requirement is currently payable. In cases of comparatively old utility properties it is easily possible that the average dollar invested would have twice the purchasing power of the 1951 dollar. In such cases a rate of return of 6 per cent, for example, paid in 1951 dollars would really be a return of only 3 per cent stated in terms of the average dollar used in the installation of the property of the company.

WHILE any index, or combination of indices, which fairly indicates the relative purchasing power of the dollar over the periods being examined could be used with equal propriety, I have used the BLS index because its value for this purpose has received widespread recognition. The Department of Labor reports that over 700 wage contracts covering over 2,700,000 employees have escalator clauses tied directly into the BLS index.



| | *Per Books* (a) | *1935-39 Dollars* (b) | *1939 Dollars* (c) |
|---|---|---|---|
| Net Telephone Plant in Service 10/31/50 | $5,942,405.21 | $3,955,350.16 | $3,777,531.69 |
| Materials and Supplies | 231,866.60 | 134,026.94 | 126,703.06 |
| Working Capital | 111,118.90 | 64,230.58 | 60,720.71 |
| Total | $6,285,390.71 | $4,153,607.68 | $3,964,955.46 |
| Earnings Requirement | $ 363,035.95 | $ 209,847.37 | $ 198,380.03 |
| Per Cent Return | 5.78% | 5.05% | 5.00% |

Note: The book figures shown in column (a) were converted into 1935-39 dollars by use of the Bureau of Labor Statistics index, the results of which are shown in column (b), and were converted into 1939 dollars by use of the Department of Commerce index, the results of which are shown in column (c).

I used the index adopted by the Department of Commerce in "Estimates of Gross National Product in Constant Dollars, 1929-49," *supra,* because this constitutes a recognition by an important department of the United States government of the fallacy of making comparisons with respect to different years in terms of the current dollar. The Department of Commerce in this article recognized that a comparison of the volume of the gross national product stated in terms of dollars current from time to time was meaningless and found it necessary to restate such production in terms of a constant dollar to overcome the distortion in comparisons made in terms of the current dollar.

The value of the method proposed by me is that it provides an uncomplicated and easily applied method of measuring the difference between the real return, measured in terms of a constant dollar, and the illusory return, measured in terms of the current or nominal dollar. Whether a rate of return determined by the earnings requirement method or by comparison with the returns on investments in other enterprises having corresponding risks is appropriate can be accurately measured by this method and a comparatively accurate determination can be made of whether such rate is really compensatory.

THE validity of the use of the measuring stick proposed is even more apparent in connection with determining the annual allowance for depreciation than it is in determining

the rate of return. Every one agrees that,

> Broadly speaking, depreciation is the loss, not restored by current maintenance, which is due to all the factors causing the ultimate retirement of the property. . . . In determining reasonable rates for supplying public service, it is proper to include in the operating expenses, that is, in the cost of producing the service, an allowance for consumption of capital in order to maintain the integrity of the investment in the service rendered. (Mr. Chief Justice Hughes in Lindheimer *v.* Illinois Bell Teleph. Co. (1934) 292 US 150, 167 [3 PUR NS 337].)

The issue is whether the amount of this loss shall be computed in terms of the constant dollar value, or the current dollar value, of the annual loss being suffered. It is perfectly obvious that unless the constant dollar value of the property is recovered through annual charges to depreciation over the service life of the property, that confiscation to the extent of the deficiency has occurred and the integrity of the investment has *not* been maintained. If depreciation is computed in terms of the current dollar, this deficiency is bound to occur unless the average purchasing power of the dollar during the service life of the property is equivalent to the average value of the dollar invested.

It seems clear, therefore, that equity requires that the annual allowance for depreciation be computed in terms of a constant dollar having the same purchasing power as the dollar in which the value of the property to be depreciated is stated. Under the method proposed the gyration in the purchasing power of the dollar during the service life of the property will not interfere with the recovery over the service life of the property of the value invested therein.

If the purchasing power of the dollar goes down more dollars of such reduced purchasing power will be required in any one year for annual depreciation and if, on the other hand, the purchasing power of the dollar goes up this requirement will be reduced in terms of the then current dollar. At the end of the service life of the property there will be neither an excess nor a deficiency in the value returned if this method is used. The only excuse for not using it is the contention that over the service life of the utility property the average purchasing power of the dollar current from year to year will be equivalent to that of the dollar invested. The facts of life today indicate that this is a forlorn hope with very little prospect of realization. To the extent that it is not realized the utility industry will continue to suffer irreparable confiscation.

Where the original cost of the plant account of a utility is roughly equivalent to the cost stated in terms of the 1932 dollar (which might be possible if a utility had made only a minority of its plant construction during inflation), the present current dollar allowances for annual depreciation over the service life of such property would be approximately twice those computed in the original cost dollars with which the property was acquired. This, however, is as it should be, if confiscation of property of the utility is to be avoided. The effect (assuming no additions and

also assuming other assets equivalent to liabilities) would be that of doubling the book value in terms of current dollars of the outstanding securities of the company, and if the company had a debt ratio of 50 per cent, the book value, in terms of current dollars, of the stock would be tripled. (The book value of the securities of the company would be unchanged in terms of 1932 dollars.) This fact alone, however, would not result in any unjust enrichment of the stockholder as none of these depreciation allowances is available to the stockholder as earnings, if the utility is to preserve the investor integrity.

If an appropriate rate of return for the utility property referred to in the foregoing paragraph were 6 per cent in 1932, there does not seem to be any valid reason why the same real return should not be realized with respect to the same property in 1951, even though the realization of this return may require the payment of twice as many of the dollars current in 1951 as would have been required to pay the same return in 1932 dollars.

If we also assume that this company had a rate base of $2,000,000 (in terms of 1932 dollars) represented by $1,000,000 of 4 per cent bonds and $1,000,000 of common stock invested in 1932, the company, in 1932, assuming it was entitled to a 6 per cent return, would have an earnings requirement of $40,000 of interest and $80,000 with respect to the common stock, or a total of $120,000 of 1932 dollars. In 1951, the purchasing power of the 1951 dollar being approximately one-half of the 1932 dollar, the company, presumably, would be entitled to 240,000 1951 dollars of return. This might be objected to on the basis that the stockholders are entitled to only two 1951 dollars in lieu of each 1932 dollar, or two times 80,000, or 160,000 1951 dollars. As the interest charge of 40,000 1932 dollars could still be discharged by the payment of 40,000 1951 dollars, it could be contended that the consumers should benefit to the extent of 40,000 1951 dollars and the return might properly be fixed at 200,000 1951 dollars, or the equivalent of $100,000 in 1932 dollars. Thus the real rate of return would be reduced to 5 per cent though it would be equivalent to 10 per cent in 1951 nominal dollars. It could be contended that the discharge by the company of its debt obligations in terms of current dollars without recognition of their deficiency in purchasing power is justified by the fact that a purchaser of debt securities might be said to have taken this risk by the very nature of his contract.

In the case of a utility plant account installed at present-day costs, this situation might well be reversed if the average purchasing power of the dollar during the service life of the property should increase over the purchasing power of the average dollar invested. In this event the stockholder might be entitled to fewer current dollars of return and fewer current dollars might be required for the annual allowance for depreciation. The customers of the company, however, would, in this case, have to bear any loss resulting from payments made to creditors in premium dollars.

# Florida's New Full-powered Commission

*The current session of the Florida legislature has finally approved an oft-proposed measure to give the state regulatory commission jurisdiction over private gas and electric companies. This is a description of the measure's provisions.*

By C. E. WRIGHT*

THE state of Florida, by act of the legislature, has placed private electric and gas utility companies under control of the state railroad and public utilities commission, effective immediately after the new law was signed by the governor. The new law specifically exempts municipally owned electric and gas utilities, REA coöperatives, nonretail natural gas pipelines, and bottled gas. The bill passed the house of representatives 65 to 25, and the senate 30 to 4.

This result was not opposed by the private utility companies. On the contrary, they rather favored some such legislation in view of the fact that it does away with a multiplicity of many local regulations. The law came about after a 12-year fight in the state. In every biennial session of the state legislature since 1939, one or more bills have been introduced for state regulation to replace the county and city regulatory measures, but these were defeated by the combined opposition of the Florida Municipal Utilities Association and the Florida REA Coöperatives Association.

Last December the Florida REA Coöperatives Association, at a spirited meeting in Jacksonville, withdrew its opposition to regulatory legislation provided the coöperatives were exempted. Of the 16 coöperatives in the state, there were two irreconcilables, one of them the Clay Electric Coöperative, Inc., of Keystone Heights, the largest co-op in Florida.

The act supersedes rate-making and regulatory functions of the nation's only county regulatory utility commission in Pinellas county (St. Petersburg); Tampa; Miami; and other cities wherever there is a municipal rate-making body.

*For personal note, see "Pages with the Editors."

The present litigation of the Pinellas utility board is expressly exempted as this case is being heard in the Florida Circuit Court at the present time.

THE position of the private utility companies was recently stated by McGregor Smith, president of Florida Power & Light Company, Miami, to the *Miami Herald*. He said that his company would not oppose a statewide regulatory measure, stating that "if it is a fair bill, and I mean fully protects the public as a bill should do, and also is fair to the utilities, I would want to see such a measure become law." He added that "having cut my eyeteeth as an engineer for a statewide utility commission, I certainly am not opposed to statewide regulation and recognize that statewide regulation is much more efficient and economical than the few individual local boards that now exist."

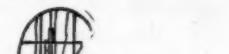
Two bills for regulation were introduced in the current session of the Florida legislature. The one which was passed was known as the Dowda Bill and was drawn up by Thomas B. Dowda, representative for Putnam county, and a prominent attorney of the city of Palatka, Florida. The other bill, known as the Baynard Bill, considerably more complex than the Dowda Bill, made little headway in the legislature in competition with the rival measure.

At a hearing on the Dowda Bill before the house committee on public utilities at Tallahassee, which lasted only a few hours, representatives of the private utility companies were present, but took no part in the proceedings. The principal opposition to the bill came from representatives of the Florida Municipal Utilities Association, which embraces about 20 municipally owned plants in the state.

Such opposition seemed to be based on some apprehension that the same authority which took the municipals out of the bill might some day put them back in again. In other words, there was a fear that, contrary to the general trend in regulatory legislation elsewhere in the United States (which tends towards more and greater exemption of municipal plants and coöperatives), some future amendment of the law would place such bodies in Florida under the regulation of the state commission. Something was also said about the possibility of "political influence" developing around the commission.

ADVOCATES of home-rule regulation (municipal), of course, opposed the bill in principle, since the elimination of such regulatory control was basically the main interest of the new law. Although the city of Miami, for example, does not own its power plant, the city charter gives it rate-making powers. Some of the city officials of Miami even hinted that passage might tempt Miami to build its own municipally owned electric plant. But, oddly enough, there was no formal opposition to the bill registered from the two large municipal plant cities, Jacksonville or Tallahassee.

The state commission has the power, among others, to prescribe uniform system of accounts which "shall set up adequate, fair, and reasonable depreciation rates and charges," to make investigations and to require information and periodic reports, to require



## Florida Municipals and Co-ops Exempt

*"THE state of Florida, by act of the legislature, has placed private electric and gas utility companies under control of the state railroad and public utilities commission, effective immediately after the new law was signed by the governor. The new law specifically exempts municipally owned electric and gas utilities, REA coöperatives, nonretail natural gas pipelines, and bottled gas."*

additions to plant to provide service, and to make such rules and regulations.

The act provides that the commission shall determine the "actual legitimate costs" of used and useful property and keep a current record of "net investment" which shall be the value for rate-making purposes and which "shall be the money honestly and prudently invested" in used and useful property less accrued depreciation and without good-will or going concern values. No allowable rate or return is specified but the act provides for rate changes where the state commission finds that the "rates are insufficient to yield reasonable compensation for the services rendered." Separate accounting of merchandising operations is required and profits and losses therefrom are not to be considered in determining any rates.

Another paragraph provides that no public utility shall be required to furnish electricity or gas for resale; that all rates shall be "fair and reasonable"; that no utility shall give any unreasonable preference or advantage to any "person or locality or subject them to any undue or unreasonable prejudice or disadvantage."

It is further provided that the Florida Railroad and Public Utilities Commission shall have jurisdiction to regulate and supervise each utility with respect to rates, service, and the issuance and sale of its securities maturing more than twelve months after date of issue.

IN the exercise of its jurisdiction, the Florida Railroad and Public Utilities Commission shall have "exclusive and superior" authority over all local or sectional boards or commissions. Within ninety days from the issuance of rules and regulations under the act, all Florida public utilities coming under the act must file with

the commission their schedules showing all rates, classifications, and charges for service. As originally written, the law provided for ten days' notice to the commission on any such changes in the rates or regulations; but this provision was amended to provide for public hearings by the commission on any such changes, and the bill was further amended in the house to permit appeal from the rulings of the commission to the Florida Supreme Court by certiorari.

The withdrawal of opposition to this bill on the part of most of the coöperatives was due not only to their exemption from its provisions, as this exemption was specified in previous bills which failed to pass. With the growth of the coöperatives, their business relationships with the private power companies, from which most of them obtain their power for distribution, have become closer and more harmonious, resulting in similar aims so far as state regulation is concerned.

Florida has seen a rapid growth in size of both REA co-ops and municipal electric plants. The coöperative movement started in the late 1930's, and has expanded into fifteen associations which serve many of the rural areas. Clay Electric, the largest, has members in twelve counties of the north-central section of the state. It generates its own power at Keystone Heights, but all others, with the exception of the Glades Electric Coöperative, Inc., at Moore Haven, buy at wholesale and merely distribute it.

MUNICIPAL electric plants are operated in 28 cities and towns, some generating their own power and others merely performing the transmission and distribution function. The two largest are in Jacksonville and Orlando, the others being in Alachua, Bartow, Bushnell, Chattahoochee, Clewiston, Fort Meade, Gainesville, Green Cove Springs, Homestead, Jacksonville Beach, Key West, Kissimmee, Lake Helen, Lake Worth, Lakeland, Leesburg, Mount Dora, New Smyrna Beach, Newberry, Quincy, St. Cloud, Starke, Tallahassee, Vero Beach, Wauchula, and Williston.

The private power companies affected by the new legislation are: Florida Power & Light Company, Miami; Florida Power Corporation, St. Petersburg; Tampa Electric Company, Tampa; Gulf Power Company, Pensacola; and Florida Public Utilities Company, Atlanta, Georgia. Also affected are a number of gas companies.

THE Florida Railroad and Public Utilities Commission, which will inherit the duty of administering the new law, already has gained much experience and respect in the regulatory field of public utilities. In addition to fixing the rates and control of several of the intrastate rail and bus operations, the commission has been active in a number of telephone cases.

The chairman of the commission is Wilbur C. King and his associates are Richard A. Mack and Jerry W. Carter. The present staff is composed of rate experts and others who have been dealing with carriers and telephones, and will doubtless be augmented in the near future with gas and electric utility experts.

# Transit—A Unique Business

## PART II

The peculiar economic position of the transit industry makes its particularly vulnerable to the impact of inflation. Some suggested steps that might be taken to correct this situation.

BY JOHN H. BICKLEY*

THE low earnings of the transit industry and the competitive impact of the private automobile already have been mentioned. Generally, there is a tendency to attribute losses or a decline in profits to conditions beyond management's control, and, while this is true in some cases, such explanation is at times incomplete. Although practically all transit systems have suffered a decline in riding during the past three years (Table II, Part I, May 10, 1951, issue, page 600) some companies did much better than others—in 1948, two, and, in 1949, three of the 27 companies included in Table I (page 599, Part I) earned over 10 per cent on net assets, compared with averages of 1.70 per cent and 2.14 per cent, for the respective years. In 1948, nine companies, and, in 1949, eight companies had profits of more than 3 per cent of sales.

When profits shrink or vanish, it is necessary to look for betterment in many places. The raising of prices, especially when it drives away patronage, is not always the sole or the best choice. Ordinarily, the way to combat the adverse effects of competition is not by the increasing of prices, but by lowering them, if financially feasible, or, at least, by fare adjustments that hold as much traffic as possible.

### *Fares*

EXPERIENCE of the past few years shows that the immediate effect of higher charges for transit service is an increase in revenue; but, as time goes on, riding falls off to such an extent that finally revenues are no more, and may be less, than before fares were raised. The failure of higher fares to increase revenues, except in

*For personal note, see "Pages with the Editors."

1948, might suggest that fares should have been increased more. This probably was so in some cases; nevertheless, the raising of prices should be the last recourse when patronage is falling.

Fare raises were doubtless necessary and riding would have gone down, even without them; but it is not so certain that traffic would have fallen as much as it has had fares been raised less, or if fare revisions had been made in a different way. There may be instances in which a certain fare will produce as much revenue as a higher one. If this is true, then the advantage of a larger charge is not in more revenues but in less expense.

Moreover, the usual response to higher costs and declining patronage has been a general fare increase. Selective changes are seldom made, except that the adult fare may be raised, with no change in the school fare. This is the easy way, but it fails to recognize that transit systems sell different rides having different costs and values. In spite of a century of experience, the industry has not learned much about the construction of fares; and a satisfactory structure has not yet been devised, except perhaps in isolated instances.

Well-designed price structures are rarely simple arrangements and transit fares have been oversimplified. Other utilities realize that prices charged cannot be the same for all users. Electric utilities sell one service, but this industry understands that many factors enter into prices. The average charge per kilowatt hour for commercial and industrial customers, in 1949, was 1.60 cents, and 3.01 cents for residential or domestic service. Furthermore, not all customers of the same general class pay the same average rate. Charges for telephone service likewise vary as among subscribers. These are sound practices and are in sharp contrast with the transit industry.

In the opening comments, it was pointed out that almost universally, in the transit industry in this country, the passenger pays a fare unrelated to the length of his ride.

### *Zone Fares*

Much has been said and written on the subject of zone fares, but, with amazingly few exceptions, little has been accomplished. Fault does not rest exclusively with transit management; public opposition is met because some patrons would have to pay more than the current rate.

The basic idea of the zone fare is to impose a charge related in some measure to the length of the ride. This is equitable. There is no reason why a person who travels ten miles should not pay more than one who travels two or five miles. But the custom, however illogical and unreasonable, of a single fare for all rides is strongly rooted as far as transit companies are concerned. Nevertheless, the zone system is not uncommon; a number of cities have such fares for taxi service and in other communities taxi fares are metered.

It is almost too obvious to note that the charges of railroads, intercity bus lines, and airlines are based on the length of the ride. The basic pattern is one related to distance.

In the application of a zone fare, sharp differences will arise as to how

rates and distances should be geared; and in the demarcation of zones, some arbitrary decisions will have to be made. But conflicts of this nature should be resolved by consideration of the characteristics of each community and by an effort to reconcile, within reasonable and practicable limits, the fares charged and the service rendered. The first requisite is an acceptance of the principle of a fare related, to some extent, to the distance traveled.

*Tailored Fares*

IN addition, transit fares should be tailored to fit riding conditions and costs, and to draw riders. Cities have been undergoing important changes during the past three decades. Residential sections are moving to the outskirts. In large cities, numerous shopping and amusement centers have grown up and the area has become divided into subcommunities, each large in itself. If transit companies have been fully cognizant of the implications and consequences of this change in community growth and development, there is little evidence that service and fares have been adjusted to the changed conditions. Although a trade center may serve a large population within a radius of one to three miles, the same fare must be paid to go to and from that center as is charged for travel to the more remote main business section. Merchants have discovered the advantages of these outlying posts, but transit companies have not seized upon the riding potential they afford.

For riding within the central business area, the fare is usually the same as for much longer rides to and from that section. Here again opportunities are often lost. In one large city, the transit system has seen the substantial volume of traffic that could be tapped by a moderate fare within the central district. However, cities do not all follow the same pattern of residential, commercial, and industrial layout, and a transit plan suited to one may be ill-adapted to another. Nevertheless, the opportunities presented by each should be explored.

In communities of over 200,000 population, each section must be studied from the standpoint of traffic originating and terminating within the section. Origin and destination surveys are inadequate for this purpose, since they report only those who are riding and not those who would ride if service and fares were conducive to the use of mass transportation.

FURTHERMORE, a sound price or fare structure must give consideration to (1) competitive prices, (2) the value to the buyer, and (3) the cost to the supplier.

¶ "WHEN *profits shrink or vanish, it is necessary to look for betterment in many places. The raising of prices, especially when it drives away patronage, is not always the sole or the best choice. Ordinarily, the way to combat the adverse effects of competition is not by the increasing of prices, but by lowering them, if financially feasible, or, at least, by fare adjustments that hold as much traffic as possible.*"

In open markets where more than one supplier stands ready to serve, prices must meet competitive conditions for the same quality of goods or services, and the two, price and quality, are inseparably related. Since the transit industry is in competition with the private car, its appeal to the mass of people must be based on the cost and convenience of transit riding *versus* the cost and convenience of the automobile for the same use, or, in brief, on price and value. The 2-car family seldom has need to consider costs of this nature, so that convenience and the absence of traffic and parking worries must be emphasized. But it is hard to sell transit service to this group on the score of greater convenience.

For other individuals and families having one car or none, cost is important, but convenience still has a part. If these groups are to be attracted and held as riders, the cost of using mass transportation must bear a reasonable relationship to the cost of a car. Unless it can be demonstrated that the cost of a transit ride is as low or lower than the use of a car, or that there is greater convenience, the transit company will have difficulty in justifying its charges from the standpoint of the value of its service. Public transportation then becomes a second choice to be made only of necessity.

### *Costs*

FARES, however, are by no means the sole, or even the first, solution for deficient earnings. The lean condition of the industry can be remedied in some cases and to some extent by means other than higher charges.

When manufacturers and merchants lose customers and revenues because of prices or some other condition, they look in several directions. Among the measures taken: They examine the quality of their goods and services as compared with competitors; they seek to determine the profitability of each line of products sold, since producers and distributors generally handle more than one; and they search for possibilities of cost reductions.

OPERATING economies afford the best answer to declining business and rising costs, and the first steps should be taken in this direction. Before a fare increase is sought, management should have its house in order and should be prepared to show that every phase of its operations is soundly planned and economically executed. Just as important as the question of what costs are is the question of what the costs should be.

In granting a fare increase to Kansas City Public Service Company, effective August, 1949, the public service commission of Missouri aptly said:

> . . . the sound solution of the problems confronting this transit system does not lie wholly within the jurisdiction of the commission. It would seem to require and justify the active and understanding collaboration and coöperation of many other elements directly involved, including the management of the company, the municipal authorities, the employees, business and civic interests, and the general public. A better solution than increased fares would be a substantial reduction in operating costs, but as to many of these costs the commission is powerless to act. We can, of course, control losses to some extent through permitting curtailments of service and the discon-

## Subsidy and the Future of Mass Transport

*"WEIGHING the favorable and unfavorable factors, and assuming that war emergencies are not normal, the conclusion is inescapable that the road ahead for transit systems is still rough. Mass transportation will survive, but the future for private enterprise in the industry is not bright, unless there is public subsidy. In the latter event, public ownership will spread, whatever its weaknesses, and they are many. This is not to say that money cannot be made in transit operations, but values will be low."*

tinuance of economically unsound lines, but as concerns many of the items of expense involved, such as material costs, etc., we have little or no control.

No enterprise has complete control over all its costs; and when business is receding and wages and material prices rising, cost reductions equal to the loss of sales are unusual. However, cost control is a managerial function and responsibility. A public regulatory agency has no control as such, except as to (a) the costs it will allow for rate-making purposes, and (b) its approval of needed service adjustments to reduce expenses, when the agency has jurisdiction over routes and schedules.

But, first, to point up briefly what happened in the transit industry between 1945 and 1949, the following figures on certain percentage changes are given:

| | *% Increase Or Decrease 1945-1949* |
|---|---|
| Revenue passengers | —19.7% |
| Vehicle miles operated | — 2.2 |
| Passenger revenues | + 8.1 |
| Average fare | +34.5 |
| Operating expenses | +25.4 |
| Per mile operated: | |
| Total passengers | —16.5 |
| Revenue passengers | —17.2 |
| Passenger revenues | +10.4 |
| Operating expenses | +28.4 |
| Net operating revenue | —50.0 |

The largest increase shown above was in the average fare, but the 34.5 per cent advance was accompanied by only an 8.1 per cent increase in passenger revenues and a 10.4 per cent increase in passenger revenue per mile, for with a 19.7 per cent decline in riding, mileage was cut but 2.2 per cent, and total passengers and revenue passengers per mile dropped 16.5 per cent

and 17.2 per cent, respectively. The next largest increases were in expenses and expenses per mile, further reflecting the small reduction in mileage.

FROM a demand and cost viewpoint, there was a failure to reduce mileage as much as it should have been, without actual impairment of service. But here the operator is on the horns of a dilemma. When riding is falling off and the demand for service is declining, schedules can be reduced in order to avoid unnecessary expenditures. However, if schedules are cut too much, further loss of patronage occurs. Hence, the amount of service must be carefully adjusted to demands so as not to discourage riding. This necessitates thorough study of loadings at different points and at different times, and a knowledge of the flow of traffic.

The only solution to timely and economical scheduling is constant checks on traffic, for the riding characteristics of individual lines can change quickly. The establishment of one-way streets, for example, can cause a shift of traffic from one line to another. For many properties, Saturday riding at one time exceeded that on weekdays, but by reason of the 40-hour week, Saturdays now produce less revenue. The lessening of the workday has reduced early morning traffic. In many areas, television has cut deeply into night riding. The alert schedule department must detect such changes promptly, or financial losses soon result.

The routing of lines is also of major importance from the standpoint of both service and costs. However, an attempt to change routes usually meets with the opposition of some people and the approbation of others. This problem is particularly acute in large and rapidly growing communities with new residential, shopping, and industrial areas springing up. Consequently, transit systems have to review from time to time the new and changing centers of population and business and also changes in the movement of people from place to place. Studies of this kind may reveal that, while new sections of a community must be served, there are opportunities to so change and consolidate lines as to reduce mileage. It may be found that lines are needlessly close together and that better service can be given by changing routes in such a manner that one line will serve the purpose of two existing ones.

A LARGE transit system is made up of a number of lines, all interconnected directly or indirectly. Some lines carry more passengers than others and produce more revenue. But the relationship between transfer and revenue passengers will vary, and this can inflate the apparent earnings of some lines and deflate the earnings of others. Consequently, each line must be analyzed to determine its contribution to system revenues and costs.

Certain routes may cause losses that are a burden to the entire system. This suggests that the demand for the particular service does not warrant its existence and that the route should be abandoned. Nevertheless, a decision concerning the discontinuance of a line should be made only after a complete understanding of the facts. To illustrate, the average revenue per

mile for a system may be 55 cents, and all costs, except income taxes, may be 50 cents per mile. A particular line may produce only 25 cents per mile, or half the average cost. But it does not follow from these figures alone that the line should be abandoned, and for three reasons. First, the revenue of 25 cents per mile may cover the direct costs of operation and leave something over to help carry the semi-variable and fixed costs. Second, the line may feed traffic, which would otherwise be lost, to the major lines. Third, a line of comparatively small revenue may serve a growing area which the transit system should preëmpt for itself and not lose to a competitor.

An awareness of the logical consequences of a decision to abandon loss-lines is essential. A main route of considerable length has more than one segment from a revenue and cost standpoint. One or both ends, for example, may produce less income than the cost of the mileage operated. In a sense, the ends of a line are like low-income feeders and are not to be cut off without thorough analysis of costs. On the other hand, lines may be too long and adequate service provided by turn-backs or more feeders.

OTHER economies may be possible. If riding can and is to be stimulated, equipment must be comfortable and attractive, but, at the same time, it must be economical to operate and maintain. There are instances where equipment has been obsolete for years, from the standpoint of type, design, operation, and costs. Yet, for one reason or another, the obsolete facilities have been retained too long. Since World War II, several transit properties have announced and embarked upon modernization programs — usually the replacement of streetcars with rubber-tire vehicles. Greater economy is given as one reason for the change. If the modern equipment is better and more economical today, it was as much so in the early forties. In the meantime, some companies have paid millions of dollars in taxes that could have been saved and the funds applied to property improvements, had the modernization programs been instituted earlier.

Even at the present time, unbalanced conditions exist in equipment used. A combination of electric cars, trolley coaches, and motorbuses may be best adapted to service requirements in some communities, but in other places give rise to excessive costs. In addition, there is sometimes a lack of desired interchangeability of equipment, and this necessitates more spare units than if only one or two types are used. Trolley coaches and motorbuses can be used on lines normally served by streetcars, provided in the case of trolley coaches that positive and negative wires are strung, but streetcars

¶ "MUCH *has been said and written on the subject of zone fares, but, with amazingly few exceptions, little has been accomplished. Fault does not rest exclusively with transit management; public opposition is met because some patrons would have to pay more than the current rate.*"

cannot be placed on motor coach routes. Then, too, an economical balance between trolley coaches and motorbuses may not exist, and interchangeability of facilities still limited.

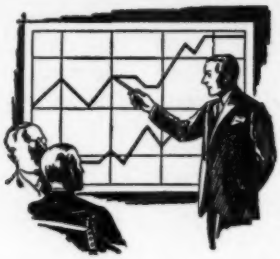
EQUIPMENT should be of proper capacity—neither too large nor too small, and the relation between (a) equipment costs, including maintenance and depreciation, fuel or power, tires, and lubricants, and (b) operators' wages, calls for careful analysis. Some equipment may occasion more accidents, or accidents of a more serious nature, than other. Certain equipment may have a comparatively high initial cost, but operating and maintenance economies may make it more economical in the end; or, on the other hand, such economies may not be sufficient to support the larger capital investment. Equipment must carry its related facilities, if true cost comparisons are to be made.

In brief, management, by possible cost reductions, can minimize the need for higher fares and thus prevent that loss of patronage caused by price increases. The organization and operations should be carefully studied for vulnerable spots that add unnecessarily to costs. The kind of operation may be outmoded and the same or a superior service furnished at less expense. The existing combination of equipment may be uneconomical. Particular equipment may be costly. Routes may be wastefully designed and may be more than essential. Schedule changes may lag too far behind fluctuations in traffic. Running time may be excessive. Inadequate attention may be given to elimination of overtime and fringe payments. Maintenance costs may be unnecessarily high and shop and garage location and layout unsuitable. Inventories may be too much or too little. Fare collections may be less than established fares permit. Transfer privileges may be abused. The sales job may be poorly conceived. The organization structure may be improperly set up in relation to the functions to be performed, and the supervisory staff too large or too small. Jobs might be consolidated. The record systems in various departments may be unduly burdensome or may be deficient in information essential to effective controls. Claims costs may be higher than necessary. These and similar matters are of first importance and they have precedence over any appeal for higher fares.

### *Taxes*

No sketch of the transit industry would be complete without reference to taxes. This problem is not of recent origin; it existed long before the present high and burdensome tax rates were imposed. A transit company starts its existence, or obtains a new lease on life, by paying for its right to operate, and the amount is often a high price. When the rolling stock is provided, a tax is sometimes imposed on the seats. The fuel it uses carries heavy taxes. There are numerous hidden taxes on other materials. The property, including the franchise, bears more taxes. The revenues collected may be subjected to taxes. And then if the enterprise is fortunate enough to earn a profit, this too is taxed.

Theoretically, all of these taxes are to be borne by the patrons of the serv-



## Changing Transit Fares to Suit the Time

*". . . transit fares should be tailored to fit riding conditions and costs, and to draw riders. Cities have been undergoing important changes during the past three decades. Residential sections are moving to the outskirts. In large cities, numerous shopping and amusement centers have grown up and the area has become divided into subcommunities, each large in itself. If transit companies have been fully cognizant of the implications and consequences of this change . . . there is little evidence that service and fares have been adjusted to the changed conditions."*

ice, but profit margins are generally so small that the investor really carries them.

Over the past eighteen years, taxes have ranged from 6 per cent to 14.4 per cent of revenues, and have exceeded operating income (income before deduction of interest and other charges) in eight of the eighteen years and probably exceeded profits in most years.

Since 1940, taxes have exceeded operating income in six of the ten years, and in total exceeded such income by over $137,000,000. The taxes mentioned do not include all those imposed. Consequently, when the public and its representatives review fares, a look should be had at taxes, for the rider and a company might be given relief here.

### *Future of the Industry*

To predict the future of any industry is a hazardous venture. Nevertheless, several observations may be in order. These are predicated upon a few basic conditions and forces affecting the transit industry. There will be examined the adverse conditions, and then the factors favorable to the future. The same conditions sometimes operate both ways.

First, the transit industry suffers from increasing use of the private automobile. With higher average personal income, accompanied by easy credit terms, as has been the case until recently, more cars are purchased and riding thereby diverted from transit lines. Unless interrupted by war, car registrations will rise.

Second, mounting costs, especially

wage rates, along with loss of passengers, create higher per mile costs, unless other economies can be effected.

Third, most large communities are improving their arterial highways to speed the flow of traffic, which will thereby further stimulate the use of private cars. The same public works will benefit transit systems by likewise speeding their operations, but the weight of this advantage is in favor of the motorist.

Fourth, the establishment of commercial and other centers outside the central business area, reduces traffic to and from that section. Whether or not transit companies can gain in peripheral riding will depend upon how well they design their operations.

Fifth, improvements in city layout and garages will facilitate the handling of more automobile traffic in central business areas.

FOREMOST on the favorable side is any condition that curtails the use of automobiles, such as a national emergency cutting the supply of cars, rubber, and gasoline. And it appears that we no sooner recover from scarcities, when another emergency arises. Another full-scale war, or extensive preparation for war, would lead to an increase in mass transportation and transit systems would be more prosperous than they are today.

Second, although car registrations will increase in the long run, the recent high rate of climb is unlikely to continue. From 1946 through 1949, car registrations increased at an average annual rate of 8.6 per cent; during the thirty years, 1920-1949, the rate was 4.5 per cent.

Third, street traffic is becoming more and more congested, particularly in central business areas, and parking space scarcer. Traffic may become so congested that (a) the use of cars is discouraged, (b) parking areas are built outside the main business section and public transportation used between these areas, and (c) municipalities will impose restrictions on travel by automobile to and from the central section, but this is improbable in the near future.

Fourth, high taxes on personal income will demand stringent personal economies, and if transit fares are not raised to a point that the private car is cheaper to use, mass transportation will gain from these high taxes.

WEIGHING the favorable and unfavorable factors, and assuming that war emergencies are not normal, the conclusion is inescapable that the road ahead for transit systems is still rough. Mass transportation will survive, but the future for private enterprise in the industry is not bright, unless there is public subsidy. In the latter event, public ownership will spread, whatever its weaknesses, and they are many. This is not to say that money cannot be made in transit operations, but values will be low.

Under such adverse conditions as those confronting the industry, the aim should be to hold and gain riders. This calls for (1) a sound fare structure, (2) adequate, but not excessive, service, (3) operations designed in accordance with community layout, (4) minimum costs, (5) vigorous sales promotion, and (6) favorable community and employee relations.

# How Pork Fattens the Federal Budget

**A critical analysis of past blunders and other excesses in Federal spending for public projects of strictly local benefit or no benefit at all.**

By M. R. KYNASTON*

WITH A SPECIAL INTRODUCTION BY U. S. SENATOR BYRD OF VIRGINIA

*Introduction*

I HAVE read a draft of your article entitled "How Pork Fattens the Federal Budget" and by way of comment I would say:

With the Federal debt at a quarter of a trillion dollars;

With inflation spiraling;

With requests by the President for increased taxes;

With the President proposing the largest domestic civilian budget of all time; and

With defense requirements for man power and critical construction materials in view:

Every nonessential dollar must be cut from the Federal budget;

Every nonessential lick on public works must be eliminated; and

Every nonessential new project must be voted down.

As in the past, it is my purpose again this year when the appropriation bills are before the Senate to insist on this action. To be successful, however, members of Congress need tangible evidence of the backing, influence, and coöperation of their constituents.

—HARRY FLOOD BYRD

DOWN in the valley of Polecat creek near Sapulpa, Oklahoma, the 180 resident families nestled in clearings among the scrub oak are singing hallelujahs to the Corps of Army Engineers.

Not this spring or ever again will these grateful people have to slosh around in the overflow from seasonal flash floods. For the Engineers are putting the finishing touches to a $2,810,000 dam and channel-clearing project guaranteed to keep "the crick" in its banks.

*For personal note, see "Pages with the Editors."

Taxpayers in the rest of the country who have footed the bill may want a few facts about their act of generosity.

The flood plain consists of 12,540 acres, only half of which are in cultivation, the rest being abandoned to the oaks and stubble.

In the past, water has risen three feet above the banks on the average of once in two years.

Cost of protecting the land from this peril comes to $224 an acre. The Engineers estimated the value of all land, homes, barns, and other improvements in the basin at $2,974,000, provoking the thought that for an additional $164,000 the Federal government could have bought up the whole valley.

In the opinion of the Bureau of the Budget in Washington, which screens all Federal spending programs, this project was economically unsound. But the Engineers recommended it, Congress put up the taxpayers' money, and the valley people are grateful to all concerned, especially to the Engineers.

Anyone who questioned the validity of this project likely would get the same answer that Congress, in effect, gave to the Budget Bureau: The Federal government is pouring money into other creeks all over the country, so what's the matter with Polecat?

If there is any refutation for that logic, the taxpayer will have to discover it for himself. Nobody in government has been able to do so. Polecat creek, indeed, is no startling example of the way the Corps and its waterway rival, the Bureau of Reclamation, go about developing our waterways at what may be an eventual cost (including plans now on the drawing boards) of $52 billion.

War in Korea, national mobilization, shortages of labor and materials, skyrocketing taxes, and economic strangulation—none or all of these exigencies are preventing the Engineers from spending more than $100,000,000 this fiscal year on projects not even approved by the Budget Bureau.

And now trooping to the fore, decked out in uniforms to serve the defense effort, come many of the old stand-bys, including St. Lawrence seaway, Passamaquoddy, Hell's Canyon, and Cross-Florida barge canal which could not make the grade even in peacetime.

The taxpayer can well afford to take a closer look at those four examples.

From the White House itself came the bugle call for St. Lawrence Here, for an outlay of perhaps $800,000,000, is an opportunity to develop a combined seaway and power project which promises to liquidate itself in about thirty years with the proceeds of tolls and electric sales, although it could not be completed in time to serve any defense needs of the next few years and the original costs would be heaped upon the mobilization tax bill.

Passamaquoddy, a $100,000,000 item at today's prices, is provided for in separate legislation sponsored by each of Maine's five members of Congress. The purpose of Old 'Quoddy is to put the moon to work. While atomic scientists made bombs from the forces which activate the sun, Army Engineers would be harnessing the lunar-drawn tides to produce electricity.

Quoddy is an arm of the Bay of

Fundy. The tidal idea caught on when the late President Franklin D. Roosevelt frequented his summer home at near-by Campobello. The President nodded neighborly approval, some say with tongue in cheek, and the Engineers spent $6,363,784.97 before Congress called the whole thing off at the end of fiscal 1936, consigning the Engineers' living quarters and other standing facilities to the WPA.

Engineers progressed far enough to learn that most of the power produced by the main tidal plant would have to be put to secondary use, pumping sea water to an 8,000-acre reservoir 120 feet above sea level for purposes of firming up the electric output when the tide was out. At 1936 prices, it would have cost $36,284,000 to have produced 30,000 kilowatts of power at 'Quoddy. This meant an investment of $1,209 per kilowatt, compared with modern steam plant costs of $90 to $120 per kilowatt. Still the agitation for 'Quoddy persists.

Looking far west to Idaho, the taxpayer will find $200,000,000 of his money sought to remedy the defects of nature at the place called Hell's Canyon. In his budget message last January the President said he was reducing his requests for waterways funds to the bare defense necessities. He asked for only seven new projects costing a total of $1.5 billion. One of these was—you guessed it!

Hell's Canyon is on the Reclamation Bureau's list. That there is a national defense market for more electric power in the West, and that the sales of electricity eventually would return the $200,000,000 initial cost, few would dispute. But would the money be returned to the taxpayers? No, indeed. The bureau proposes to spend the power proceeds irrigating 192,000 acres of countryside, at a relative cost of more than $1,000 an acre.

TURNING to Florida, the hard-pressed provider of the public purse finds more evidence of what happens when Congress, on second and more sober thought, recalls the Engineers from a project which they have been permitted to start.

It was decided back in the make-work 1930's that the peninsular state should be intersected by an $83,614,000 barge canal. The Engineers had spent only $1,437,200 when a halt was called. The relic of this project is a big hole in Florida's No. 2 Highway near Ocala, around which traffic is still detouring today, and two naked concrete towers which were to have been abutments to a bridge across the hole.

Exposed here, too, is the naked fact that once the Engineers get going, Congress cannot stop them without losing the whole original investment,

¶ "THE *Hoover Commission . . . compiled a list of 62 projects bearing a combined original price tag of $1,918,062,000 which had been* AUTHORIZED *by Congress between 1941 and 1948 over the objections of the Budget Bureau. In some cases the objections were only partial or conditional.*"

since no purpose is served by half a dam or one section of a canal.

But arguments for this project have now changed to meet the circumstances. Recalling that German U-boats took a heavy toll of shipping around the Keys and in the Gulf of Mexico in the early stages of World War II, Florida business and civic groups are clamoring for the Engineers to proceed with the canal to save ships from Russian submarines.

In peace or war, boom or depression, the scramble to pour Federal money down the waterways is irrepressible. The Hoover Commission expressed profound shock at the waste entailed, and it largely blamed the rivalry between the bureau and the Corps. Those two energetic agencies were charged with duplication, hasty surveys, inadequate planning, and rash and conflicting claims as they work along the rivers at cross-purposes, the one trying to hoard water upstream for irrigation, the other bent on keeping the water flowing for flood-control and navigation purposes, both being deeply involved in power development and other uses, and neither paying any attention to hydrologic data or technical services provided by other specialized Federal agencies in the field.

STRIKING still more deeply at the root of the evil, however, one finds that the agencies, especially the Engineers, have dark and dubious ways of getting congressional permission to start their projects.

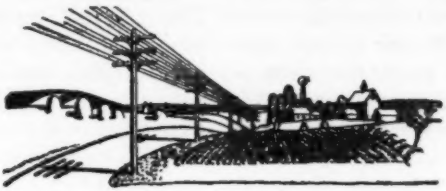
In the first place, the Corps and Congress understand each other. Engineers keep the barrel filled with pork. They operate in all states and nearly all congressional districts. Their annual reports on plans and projects fill two volumes, each two inches thick. Their recommendations have a virtual life-or-death power over any project with which a member of Congress might wish to bless his constituents.

It is small wonder, then, that in fiscal years 1947-1950, the Budget Bureau recommended funds for 754 Engineers' projects and Congress appropriated for 979.

The Hoover Commission, pursuing this theme, compiled a list of 62 projects bearing a combined original price tag of $1,918,062,000 which had been *authorized* by Congress between 1941 and 1948 over the objections of the Budget Bureau. In some cases the objections were only partial or conditional. Polecat creek was merely rated "low priority" and was not opposed outright. But against 36 projects listed for a total of $585,103,000, the bureau was adamant, using such remarks as "no need"; "undue concentration of benefits"; "low economic justification"; "speculative nature of benefits"; and "conflict with Bureau of Reclamation."

Not all those projects have been built—yet. In addition to *authorizing* a project, Congress must also *appropriate* for it before any work can be done. But of the 36 items which the Budget Bureau denounced, 24 are under way or have been completed, at a cost to date of more than $90,000,000, and the rest are on the Engineers' planning books awaiting an appropriately propitious moment.

IN the second place and in defense of Congress, it must be noted that the



## Free Spending Is Contagious

*"WELL might the taxpayer weep to see his money floating down the rivers and creeks, and still greater disconsolation is in store for him should he ever attempt to take issue with the squanderers. He will learn that economy, like charity, can only begin at home; that the same Congress which is willing to pour some 'free' Federal money into his own little pet project is just as willing and for the same reasons to fertilize projects everywhere else in the country, for every crossroads is represented in that great legislative assembly in Washington."*

Engineers have tricky ways of underestimating costs and exaggerating potential benefits.

The Buggs Island job in North Carolina and Virginia, first estimated at $30,900,000, is now expected to cost $76,870,000. Blakely Mountain reservoir in Arkansas has jumped from an $11,080,000 to a $31,000,000 project. (Reclamation Bureau examples: Colorado-Big Thompson from $44,000,000 to $150,505,000; Hungry Horse, Montana, from $38,648,000 to $105,500,000.) The House Appropriations Committee, as much as its members admire the Engineers, issued a report last year charging them with "profligacy" for enlarging upon their projects after they had been approved. But there again, it's a matter of putting up the money to finish the job or losing what has been spent.

When enumerating the benefits to be expected of three projects on the Cumberland river in Tennessee and Kentucky, the Engineers listed potential hydro power revenues at $11,223,000 a year. That was what it would have cost tax-paying, interest-paying private utilities to have produced the electricity by steam power. But the only purpose of this estimate was to impress Congress, because power produced on the Engineers' projects is marketed by the Interior Department, which has its own way of figuring prices. Power from these three dams actually was sold by Interior to the Tennessee Valley Authority for $3,500,000 a year.

The Engineers maintain, however, that the beneficiaries of their work do not live by bread alone. Other blessings which cannot be measured in dollars flow from their projects, they say. Hence, the first stated purpose of the

St. Lawrence seaway bills is "to preserve the scenic beauty of Niagara Falls."

And in undertaking the task on Polecat creek, the Engineers promised "the removal of hazards to the general welfare and to the social security of the inhabitants," a motive that is similarly phrased in a great many project plans.

JUSTIFIED as they find themselves to be in their own work, the Engineers are at a loss to understand the views of some of the people in competing forms of transportation.

Much consternation was caused when Roy P. Hart, representing the committee on waterway projects of the Association of American Railroads, testified before the House Public Works Committee in May, 1949, against the plan to provide a 9-foot channel 480 miles up the Arkansas river from its mouth to Catoosa, Oklahoma, at a cost of $650,000,000. Mr. Hart came up with the suggestion, preposterous to a river engineer, that for less than one-fifth the price the government could build a double-track, fully signaled and fully equipped railroad over the same route. He added that the $500,000,000 thus saved would provide enough income, at government interest rates, to maintain the railroad and permit the government to haul passengers and freight free of charge *ad infinitum*.

Congress fended off Mr. Hart's scheme to give the taxpayers free rides and authorized another $80,000,000 for the Arkansas channel program in the omnibus Public Works Act of 1950, settling that argument in favor of the Corps.

That same omnibus bill authorized projects costing a total of $1.7 billion. Sixteen of them, costing $179,114,000, were not approved by the Budget Bureau. In signing the bill, the President protested that $89,000,000 worth of the projects "do not justify the expenditure of Federal funds." He also complained that some of the work should have been assigned to the Interior and Agriculture departments, rather than the Engineers, and he estimated that the Corps already had enough authorized work to keep it busy eighteen years. But the fact remains that the President signed the bill.

LIKE a proud parent, Congress loves to display the prowess of the dauntless Engineers once in a while. So last September, in spite of the plethora of work along the rivers and harbors, it directed them to study the feasibility of boring a 12-mile tunnel to carry U. S. Highway 80, a railroad, and an aqueduct through the Laguna mountains in California.

No vehicular tunnel longer than two miles has ever been built. How a 12-mile one could be ventilated, Congress did not suggest. The Commerce Department rated the idea "impracticable" and quoted the California highway engineer as saying that the difficulties "could easily be insurmountable." But Congress, brim full of confidence in the Corps, told it to make the necessary plans and surveys, anyhow.

While considerably less favoritism is bestowed on the Reclamation Bureau, possibly because its operations are confined to 17 western states, that agency has never been accused of

economizing in the interests of the taxpayer.

A MILLION dollars of bureau funds are being spent this year on the Missouri-Souris project in the upper Missouri basin, a chief feature of which is to be the $268,953,000 Crosby-Mohall river diversion plan. Assistant Secretary of the Interior William E. Warne said in recommending this item to the House Appropriations Committee: "It is a great project plan . . . (but) there is a great deal of work that needs to be done before the ultimate feasibility of the irrigation plans can be worked out for the Crosby-Mohall unit."

The bureau also is putting out $1,366,000 this year on the Key Hole project near Cheyenne, Wyoming, of which the Senate Appropriations Committee said: "Representations have been made to the committee that the water supply in the Belle Fourche river is such that under the Wyoming and South Dakota compact of February 18, 1943, it may be difficult to fill the proposed reservoir."

WELL might the taxpayer weep to see his money floating down the rivers and creeks, and still greater disconsolation is in store for him should he ever attempt to take issue with the squanderers.

He will learn that economy, like charity, can only begin at home; that the same Congress which is willing to pour some "free" Federal money into his own little pet project is just as willing and for the same reasons to fertilize projects everywhere else in the country, for every crossroads is represented in that great legislative assembly in Washington.

Who is to blame?

The bureau and the Corps can truthfully say they are only carrying out the mandates of Congress.

Members of Congress can prove that they are only providing what the people back home demand.

Conservationists claim to have the answer. They say that if local interests were required to put up even as much as one-fourth of the costs of Federal public works, half of them would never be started.

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*"OUR nation's financial and economic resources should be carefully safeguarded for the emergencies ahead. It is improper for citizens to make sacrifices and suffer restrictions while Federal agencies indulge in spending and politics as usual—but now under the cloak of war emergency. There must be aggressive resistance to the 'pork-barrel' activities of pressure groups, in and out of government, who would compromise sound principles for the sake of obtaining Federal tax money for some purely local benefit on the theory that bureaucratic wastefulness is inevitable, and with the excuse that 'if we don't get it, somebody else will.' That philosophy has no place in sound, responsible American thinking at any time, and certainly not at a time when defense requirements for men, money, and materials are so pressing."*

—T. E. ROACH,
*President, Idaho Power Company.*

# Washington and the Utilities

## *Interior's Sails Trimmed by House*

At long last the House of Representatives has passed the Interior Department Appropriation Bill (HR 3790). It is now being considered on the Senate side where confirmation of the House action, or partial restoration of the cuts made in the House, will occur. Up to the final minute of House action the Interior fared badly. That department will have to look to the Senate in hope that that august body will rescue its self-esteem.

Except for the cuts made in Reclamation funds the House action reflects more a desire to pare nonessential expenditures, than any punitive measures against Secretary Chapman's sprawling empire. The amendments added to the bill just prior to passage, included some impressive examples of the "intent" of Congress with respect to projects deemed unnecessary or duplicative. In keeping with the economy spirit of the cuts, the House also adopted an amendment relating to department policy on filling staff vacancies.

Drastic cuts were made on the House floor in public power funds sought by the Bureau of Reclamation, Southeastern and Southwestern Power administrations, and the Bonneville Power Administration. The House Appropriations Committee initiated some of the cuts and recommended them to the House. In almost unprecedented action this year, the House took the committee's recommendations seriously and even pared a little more. This is in contrast to House actions in years past.

A foretaste of the House's temper toward the Reclamation Bureau was noted in the House committee's report which referred to the bureau's insistence on spending over $100,000 for surveys along the route of the proposed Bonneville-Central Valley intertie line. The report recalled that the committee had, upon appropriating funds for the last fiscal year, explicitly stated that "no expenditure of funds should be made . . . from any appropriation available to the bureau for reconnaissance, preliminary survey, design, or any other work in connection with this proposed line."

Notwithstanding the assurances of the Secretary of Interior that such specific allocations would be "scrupulously observed" the committee noted that the sum had been spent "for surveying the transmission lines" in question in "violation of comity between the Interior Department and the Committee on Appropriations and the Congress." The committee, therefore, requested the Secretary of Interior "to investigate all facts surrounding this situation and to report promptly his findings thereon, together with a report on disciplinary action taken by him, if any, in the premises."

The table on page 696 shows the reductions made by the House in Interior's funds for fiscal year 1952.

In the final hour of action on the bill, the House upheld an amendment (by a 5-to-3 ratio) deleting a $3,400,000 item for the Buggs Island-Langley Field, Virginia, transmission lines. This, in effect, stripped the SEPA of all construction funds for fiscal 1952. In a similar action, the House sustained a proposal to further reduce construction funds for SWPA by $550,000. Use of any funds for the construction of the western Missouri project was prohibited in an amend-

ment which was adopted by a vote of 247 to 152. This may have the result of leaving SWPA with appropriated funds in excess of the amount required for such construction as already authorized. A similar vote reduced the funds available for the construction program of the Bonneville Power Administration by an additional $5,500,000.

THE final coup was made by a triumvirate composed of Representatives Taber (Republican, New York), Keating (Republican, New York), and Jensen (Republican, Iowa). An amendment offered by Taber made a horizontal $10,000,000 reduction from Reclamation Bureau funds. This was accomplished by a 237-to-160 vote. The next House vote of 226 to 165 approved an amendment offered by Keating which provides as follows:

> That no part of this appropriation shall be used to initiate the construction of transmission facilities within those areas covered by power-wheeling service contracts which include provision for service to Federal establishments and preferred customers.

This amendment alone, it is believed, prevents the starting of construction of four transmission lines in California, one in Oregon, and one in Idaho, which would otherwise have duplicated existing private facilities. Jensen delivered the final proposal and gained the approval of the House by a 224-to-169 vote.

It provides that Interior Department personnel vacancies may be permitted to be refilled up to 25 per cent, and further, that when any agency, as the result of the operation of the above provision, reduces its employment to 80 per cent of the total on its rolls as of July 1, 1951, the amendment shall cease to apply, and the 80 per cent figure becomes the new ceiling for employment during fiscal 1952.

| | *Allowed* | *Below Request* |
|---|---|---|
| Interior Department (All) | $496,764,500 | $—62,521,500 |
| Bureau of Reclamation (All) | 197,000,000 | —26,690,000 |
| General Investigations | 5,000,000 | — 500,000 |
| Operation and Maintenance | 14,385,000 | — 1,000,000 |
| Administrative Expenses | 5,000,000 | — 500,000 |
| Central Valley Project, Lines, etc. | | |
| Keswick-Tracy | .... | — 1,400,000 |
| Port Chicago-Mare Island | .... | — 300,000 |
| Tracy-Patterson (Naval) | .... | — 450,000 |
| Bonneville Tie-in | .... | — 1,700,000 |
| Missouri Basin Projects | | |
| Canyon Ferry-Great Falls | .... | — 753,450 |
| Canyon Ferry-Anaconda | .... | — 703,000 |
| Miles City-Yellowtail | .... | — 85,000 |
| Yellowtail-Billings | .... | — 810,000 |
| Sioux City-Omaha | .... | — 207,463 |
| Omaha Substation | .... | — 70,242 |
| Sioux City-Storm Lake | .... | — 118,428 |
| Storm Lake-Dennison-Omaha | .... | — 30,624 |
| Sioux City-Sibley | .... | — 467,643 |
| Southeastern Power Administration | | |
| Transmission Lines | .... | — 4,000,000 |
| Operation and Maintenance | 275,000 | — 25,000 |
| Continuing Fund | 50,000 | — 150,000 |
| Southwestern Power Administration | | |
| Construction | 3,375,000 | — 725,000 |
| Operation and Maintenance | 1,275,000 | — 25,000 |
| Bonneville Power Administration | | |
| Construction | 62,000,000 | — 7,500,000 |
| Operation and Maintenance | 5,250,000 | — 250,000 |

## *TVA's, Regulatory Agencies' Funds Cut*

DESPITE TVA's strong arguments in support of its $248,568,000 budget request on a national defense basis, the House trimmed its over-all figure by about 5 per cent. Here, too, the reductions may be restored in final action by the Senate, especially in view of the presence of Senator McKellar (Democrat, Tennessee) in a key position on the Senate side as chairman of the Senate Appropriations Committee. McKellar has been a consistent champion of TVA appropriations for years, although he has, at times, questioned TVA methods. The TVA budget is not itemized to show the purpose to which the money will be put. A substantial portion of the funds included in the bill is required for power generation and transmission facilities for use in connection with the atomic energy program, according to the House Appropriations Committee's report on the Independent Offices Appropriations Bill, which contains the funds for TVA and the regulatory commissions among the other many independent agencies.

The four regulatory agencies of primary interest in the field of utility regulation, and allied matters, received cuts totaling $1,406,030. These cuts were strictly for "economy" purposes and were not intended to reflect any congressional dissatisfaction with the operations of the respective regulatory commissions. The accompanying table gives the figures for each agency and the over-all figures for TVA.

## *FPC-Interior Rivalry Spills into Gas Area*

THE Interior Department will be stripped of all potential common carrier control over natural gas pipelines if a recently introduced Senate bill becomes law. In what appears to be a new twist to the long-standing Interior Department-Federal Power Commission feud over paramount jurisdiction in matters where both agencies have an interest, Senators McFarland and Hayden (Democrats, Arizona) have introduced a bill to amend the Minerals Leasing Act. The measure will provide that all jurisdiction on natural gas pipelines, as far as their common carrier obligations, will rest exclusively with the Federal Power Commission.

It all came about when the El Paso Natural Gas Company halted construction of a several hundred mile natural gas line which was to cross 16 miles of government land. Under the Mineral Leasing Act, Interior now has the right to grant (or withhold) certificates for any such right-of-way crossings of public lands, whether by pipelines, transmission lines, or other facilities. Natural gas companies apparently fear that Interior may use this authority to superimpose a system of regulatory control over them—in addition to the control already exercised by the Federal Power Commission under the Natural Gas Act.

Construction was apparently halted to avoid the burden of such duplication of Federal regulation. The company also threatened to take the legal question of Interior's right to regulate pipeline companies crossing public lands into the Federal courts through injunction proceedings.

Senators McFarland and Hayden have come into the picture for very good and practical reasons. The lines are to serve several Arizona communities and these communities, which stand to gain natural gas service, are pressuring their Senators to do something about the matter. Both Senators carry a great deal of weight.

| | *Budget Estimate* | *Allowed* | *Reduction* |
|---|---|---|---|
| Tennessee Valley Authority | $248,568,000 | $236,139,600 | $—12,428,400 |
| Federal Power Commission | 4,365,000 | 4,241,500 | —123,500 |
| Federal Communications Commission | 6,850,000 | 6,575,000 | —275,000 |
| Interstate Commerce Commission | 11,542,000 | 10,759,470 | —782,530 |
| Securities and Exchange Commission | 5,924,000 | 5,699,000 | —225,000 |

# Exchange Calls And Gossip

## *Rate Notice Battle*

It is generally agreed in Washington that the reins of government, once firmly held in the hands of the executive department, are reverting to the elected representatives. In short, Congress is in the driver's seat.

With this in mind, Washington observers are giving less and less weight to the probability of quick congressional approval of any or all of the presidential recommendations that come to the Congress. Congress' treatment of the appropriations bill is a good example. Despite protestations from the executive department that the budget was trimmed to rock bottom, the House of Representatives is not hesitating to give it the closest scrutiny.

In the case of the Interior Department budget, which came before the House only recently, the House not only adopted the committee economy recommendations, but went ahead and added cuts of its own In recent years it was generally in floor debate that the departments regained the ground lost in the committee hearings.

For the time being it is probable that this congressional independence will be concentrated on matters of domestic government as it is goaded on by the tax-pinched man on the street. However, with the clamor being raised for something to be done about the cost of living spiral and the world crisis, presidential messages and recommendations may eventually serve only as an alarm clock, notifying Congress that it's time to act on a particular situation. Congress then will write its own law in its own way.

It appears that the President's latest recommendations for a new version of the Defense Production Act (now due) which expires on June 30th will amount to just that. What's more, some congressional leaders appeared to be genuinely alarmed about some of its recommendations, and observers are predicting a floor fight that will rival, if not transcend, the intensity of the Taft-Hartley battle. Congressmen representing farm and industrial areas feel particularily strong about it.

As far as telephone companies and other utilities are concerned, the President's bill would require that advance notice of rate increases be given to the Office of Price Stabilization. This particular recommendation has been incorporated in the Maybank Bill (S 1397) and the Spence Bill (HR 3871). Specifically, these bills would require all public utilities, without exception, to give OPS thirty days' advance notice and opportunity to be heard before local regulatory bodies in opposition to proposed rate changes. The present law exempts telephone companies and other utilities which do not sell their services for resale to the public, from even the necessity of submitting such notices.

The President's proposal on utility rate increase notice for OPS would be very similar to the provisions of the price control law which prevailed during World War II. At that time the notice and opportunity to be heard had to be given to the Office of Price Administration. That Federal agency freely availed itself of such authority and complicated a good many utility rate cases before the price control administration was

dropped. The latest presidential proposal would not, of course, give OPS any authority to regulate utility rate increases —but merely the right to oppose them. Senator Maybank (Democrat, South Carolina), who submitted the bill in his capacity as Senate Banking Committee chairman, made it plain that he did not like the bill. It is not known at this time just how much of a chance the utility rate notice provision stands to get through.

## *Electric Co-ops Service Telephone Co-ops*

As the Rural Electrification Administration developed its telephone loan program, one of the policy precepts urged by Administrator Wickard was to the effect that the already established electrification coöperatives should not attempt to extend their activities into the telephone business. Administrative complications and the technical problems involved in taking on an entirely different business were some of the reasons cited for this suggestion.

REA officials now report that in some cases of small telephone coöperatives which have received loans from the REA, it has been found necessary to approve managerial contracts between these new telephone coöperatives and near-by electrification coöperatives. These contracts, considered necessary because of the limited capital of the new coöperatives and the prospects of material shortages, cover chiefly line maintenance work and billing functions.

REA officials emphasize that the coördination is purely on the operating level and that there will be no overlapping of control such as may come about through interlocking boards of directors.

## *New FCC Investigation?*

With the House hearings just concluded on the McFarland Bill (to reorganize the Federal Communications Commission along functional lines), the commission is once again back in the congressional spotlight — or will be, if House Resolution 214 by Representative Kearney (Republican, New York) is passed. The resolution would provide that the Speaker appoint a 5-member select committee to investigate the Federal Communications Commission.

If the investigation comes about it is certain to be a broad one, judging by the language of the resolution. It states:

> The committee is authorized and directed to conduct a study and investigation of the organization, personnel, and activities of the Federal Communications Commission, with a view to determining whether or not such commission in its organization, in the selection of personnel, and in the conduct of its activities, has been, and is, acting in accordance with the law and the public interest.

The word "law" might well confine part of the investigation to Federal Communications Commission activities concerned with the Federal Communications Act and the Administrative Procedures Act. But the word "public interest" would appear to throw the investigation wide open.

## *Telephone Control Program*

Although announced as officially commencing on July 1st, it is likely that the Controlled Materials Plan will not start to function throughout industry before the fourth quarter. In the meantime, the telephone industry will be faced with the problem of attempting to go along on some kind of a basis until the Controlled Materials Plan takes hold.

With these problems in mind, emergency control officials for the telephone industry are reported to be thinking along the lines of some interim program which will tide the industry over. As a result, it is quite likely that all requests for telephone materials will be handled on a program basis, at least for the month of July.

The procedure would be one of the National Production Authority allocating basic materials to the telephone

equipment manufacturers for the month of July. Such a plan may have to continue on for a month or two until such time as the basic materials industries can mesh their schedules under the Controlled Materials Plan with the manufacturers. As it now stands, with the basic materials industries shifting over to CMP on July 1st and with their delivery schedules running on a 60-90-day basis in some cases, the equipment manufacturers would be forced to wait at least ninety days after July 1st before they could get in step with CMP. In the meantime, unless some program is drawn up, badly needed telephone equipment for the expanding industry will be held up.

Even with the prospects of expanded activity under CMP, it is expected that a 65-70-man force in the communications equipment division will be adequate to handle the emergency problems of the telephone industry. Unlike many of the other emergency control agencies, the communications equipment division is finding willing and qualified applicants from both the telephone and telegraph industries and the communications equipment industries. At present there is a recruited force of forty-five.

## *Coast-to-coast Dial*

THE first coast-to-coast dial call by a telephone subscriber will be made this fall, the New Jersey Bell Telephone Company recently announced.

Equipment required for the initial use of coast-to-coast dialing by customers will be installed in the Englewood exchange starting next month, and should be in use by the end of the year, the company said.

The intricate switching apparatus, development of which climaxes years of research by the Bell Telephone Laboratories, will enable subscribers to span the continent through ten pulls of the dial instead of the customary seven now used in completing calls to shorter distances.

In the initial phase of cross-country dialing, 10,000 customers in the Englewood exchange area will be able to dial directly to any of 11,000,000 telephones in such cities as San Francisco, Chicago, Cleveland, Detroit, and Boston and many of their adjacent suburbs, the company said.

"Telephone operators have been dialing calls across the country for several years," the company explained. "At the present time one out of every three long-distance calls is dialed directly by the operator, but Englewood will mark the first time that subscribers will be able to dial calls covering so wide an area."

"Long-distance calls which averaged fourteen minutes to connect thirty years ago and which average two minutes today, may be completed in a matter of seconds under subscriber long-distance dialing," the company said.

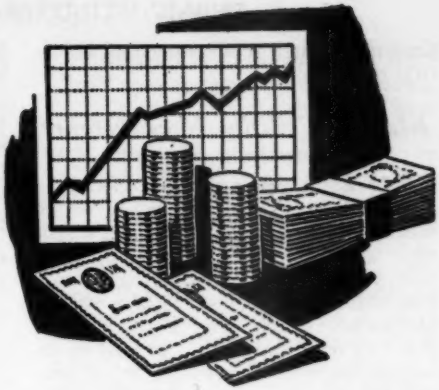
Service improvements have so greatly increased the use of long-distance service that twice as many long-distance operators are required today as were needed ten years ago, according to the company's announcement.

A COUNTRY-WIDE numbering plan, which includes parts of Canada, plays a key rôle in the nation-wide dialing system. In all, there are more than 80 numbering plan areas, each of which is assigned a special three-digit code.

For example, on a call from Englewood to San Francisco, the subscriber will first dial the latter's code of "3-1-8" and follow immediately with the number of the telephone being called. On a call to a subscriber with the number of GArfield 1-9950 in San Francisco, the calling party will dial the 10-digit combination of 318-GA1-9950.

The equipment installed in the Englewood central office stores up the digits dialed and as soon as the tenth digit is recorded, the call is automatically switched over telephone highways to the called telephone in San Francisco. (Calls to some party-line telephones may require eleven digits before the call can be completed.)

# Financial News and Comment



By OWEN ELY

## *Recent Earnings of Electric and Gas Utilities*

THE earnings reports for the electric and natural gas utilities, published by the FPC, are now available for January and February. The percentage increases in these two months as compared with the same period of 1950 are shown in the accompanying table, page 702. (In considering the gas figures, it should be kept in mind that, due to weather conditions, space-heating sales last year were generally unfavorable.)

The electric utility figures, where seasonal irregularities are less important, are of special interest. For the two months combined there was an increase in net income of only about $1,000,000 or less than 1 per cent. Assuming that the number of shares of common stock outstanding had increased in about the same proportion as net utility plant, this would mean a *decrease in share earnings* on common stocks of about 9 per cent.

The increase in Federal income taxes amounted to $32,900,000, and excess profits taxes were $1,100,000, or a total of $34,000,000. The larger increase in taxes in February, as compared with January, seems to indicate that some companies started in February to accrue income taxes at a higher rate, such as 50 per cent, in anticipation of a readjustment in the rate later this year. Had Federal income taxes increased only in the same ratio as revenues, net income for the two months would have shown a gain of over 17 per cent, it is estimated.

DEPARTMENT INDEX



THE electric utilities have been favored thus far by (1) rapid gains in their residential sales, (2) stationary or declining coal prices (despite inflationary trends elsewhere), and (3) substantial gains in their (side-line) gas earnings due to the introduction of natural gas. Had it not been for these favorable developments net income might make a still worse showing, with the result that equity financing would prove difficult.

But the utilities cannot depend on these factors to carry them through the period of high taxes. In our opinion, they should make every effort to protect earnings by seeking rate increases, par-

ticularly through readjustment of industrial rates.

## *Electric Utilities Need Higher Industrial Rates*

WITHOUT going into the mechanics of industrial rate schedules, it seems obvious that most of these schedules were prepared on a competitive basis years ago, generally on the assumption that certain industrial sales were a by-product which need not contribute much to overhead costs. As long as interruptible sales covered the actual generating cost it was considered worthwhile to have the business. But, at the present time, these assumptions have much less weight. Industrial sales as a whole for all electric utilities yield only about 1.1 cents per kilowatt hour and in many cases some power is sold as low as four or five mills. Such business becomes unprofitable when obsolete facilities burning 1-1½ pounds of coal per kilowatt hour must be pressed into service to supply the demand. Are the utilities watching their costs closely on these industrial sales? The fixed demand charge is less per kilowatt hour when a factory is operating two or three shifts—is this always figured in?

The same trend is obvious with respect to residential and commercial service because of so-called "promotional" rate schedules and because of the greater use of electricity for appliances. It is no longer so necessary for the utilities to "promote" sales—most of them have all the business they can economically handle. Aren't heavy residential and commercial consumers getting too big a "break" on their increased use of electricity? The fact that all rates are now declining — instead of increasing to make up for higher taxes — is obvious from a comparison of the smaller revenue gains as measured against the increases in kilowatt-hour sales, for the month of February *versus* last year:

| | *Percentage Increases* | |
|---|---|---|
| | *KWH Sales* | *Revenues* |
| Residential Service .. | 16.0% | 12.8% |
| Commercial Service .. | 10.4 | 8.1 |
| Industrial Service ... | 21.4 | 17.6 |
| Other Sales to Ultimate Consumers | 6.7 | 6.0 |
| Sales to Other Electric Utilities .. | 7.0 | 6.3 |
| Total Sales ..... | 14.9% | 11.8% |

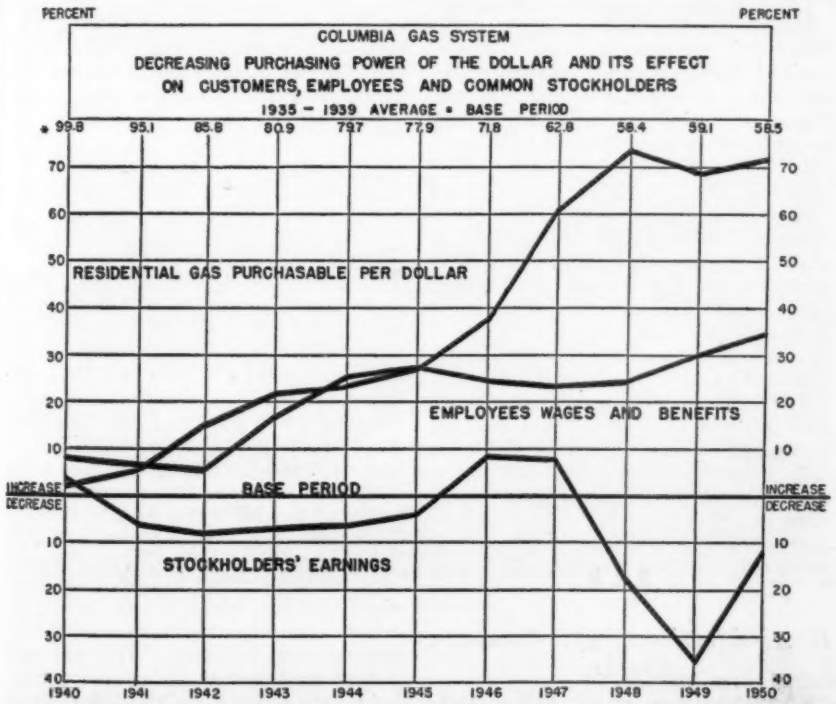
| | *Percentage Gains over Last Year* | | | |
|---|---|---|---|---|
| | *Electric Cos.* | | *Natural Gas Cos.* | |
| | *January* | *February* | *January* | *February* |
| ***Number of Customers*** ..... | 4.4% | 4.4% | 5.6% | 5.5% |
| ***Kilowatt-hour Sales*** ..... | 15.3 | 14.9 | 24.4 | 21.8 |
| ***Revenues and Other Income*** | | | | |
| Residential ..... | 11.4% | 12.8% | 26.6% | 30.3% |
| Commercial ..... | 7.0 | 8.1 | 24.6 | 27.1 |
| Industrial ..... | 16.9 | 17.6 | 15.3 | 4.6 |
| Total, Including Other Items ..... | 11.3 | 11.9 | 28.6 | 26.4 |
| Operating Income from Other Utility Operations ..... | 12.4 | 27.9 | — | — |
| Nonoperating Income ..... | 14.6 | D30.3 | 39.1 | 16.9 |
| ***Expenses and Charges*** | | | | |
| Fuel or Purchased Gas ..... | 14.9% | 9.1% | 33.3% | 24.0% |
| Wages, etc. ..... | 11.7 | 10.9 | 12.4 | 18.4 |
| Other ..... | 9.8 | 3.9 | 22.8 | 23.6 |
| Depreciation ..... | 10.0 | 9.7 | 16.9 | 18.1 |
| Taxes ..... | 24.2 | 30.2 | 56.3 | 59.0 |
| Interest ..... | 7.0 | 7.1 | 20.3 | 19.2 |
| Amortization Items ..... | D6.6 | .8 | — | — |
| Other Income Deductions ..... | 26.0 | 187.0 | 185.0 | 53.5 |
| ***Net Income*** ..... | D2.0 | 3.4 | 14.7 | 18.5 |
| ***Net Utility Plant*** ..... | 10.2 | 10.1 | 18.5 | 18.7 |

D—Decrease.

HAD average kilowatt-hour revenues merely been stabilized — not increased—revenues for February would have increased by about $12,000,000, and net income by about $6,000,000—enough to maintain share earnings for that month on an even keel or better. The utilities should at least readjust their schedules, where over-all increases are not requested; and they should emphasize that they are merely trying to maintain stable average rates per kilowatt hour.

We quote as follows from an article by Walter J. Herrman, "Sound Rate Structure Is Top Need of Gas Business" (*American Gas Journal*, June, 1950), because we think his conclusions are almost equally applicable to the electric utility business:

> Each class of business should stand on its own and support its own costs. . . . In most companies rates have tended to grow up, like Topsy, without much plan, shaped primarily by the exigencies of each situation as it arose over the years. When changes have been made, they usually have been for the purpose of increasing or decreasing total revenues, and in such cases it always seems easier to make uniform adjustments, so as to leave the spreads between individual schedules relatively undisturbed. I do not criticize utility executives for this approach, since I know from experience the trouble one can get into by trying to correct inequities between rates.
>
> The fact that one class of customer has been served for years at an unrea-




•These figures represent the Purchasing Power of the Dollar with the years 1935 through 1939 as the base period.
Source: U. S. Bureau of Labor Statistics.

sonably low charge would seem to be the poorest excuse in the world for not correcting the rate; nevertheless those customers are the very ones who complain the loudest when an increase is suggested. However, I also know from experience that such changes can be made successfully if the customers are properly sold on the fairness of the proposals, and if the amounts involved are reasonable. In some cases this can be accomplished only by a comprehensive rate program carried out over a period of years so as to minimize the impact of what would otherwise be a too drastic single-shot adjustment.

## *Life Insurance Company Investments of 1950*

THE accompanying chart, page 705, shows the increase in life insurance company investments in 1950. The companies included in this tabulation represent about nine-tenths of the industry. These companies increased their investments by some $4.4 billion in 1950, compared with $4 billion in 1949 and $3.8 billion in 1948. As in the two previous years, the companies reduced their government bondholdings substantially in order to increase their holdings of other securities and mortgages. Mortgage loans increased sharply, nearly $3.2 billion additional cash going into this type of investment, compared with $2.1 billion in the two previous years.

The insurance companies bought only $840,000,000 of utility bonds in 1950 compared with $1 billion in 1949 and $1.8 billion in 1948. Purchases of industrial, rail, and miscellaneous bonds exceeded utility bonds only slightly in amount, although in the two previous years they had been considerably larger.

## *Reclassification of Gas Company Stocks*

THE tabulation of gas utility stocks (page 708), which appears in every other issue of the FORTNIGHTLY, has been rearranged because of the changing characteristics of the industry. There is no longer a clear-cut distinction between distributors of manufactured gas, mixed gas, and natural gas. There has been a rapid transition from manufactured to enriched (not merely mixed) gas and then to complete substitution of natural gas.

This is progressing as fast as pipelines can be built and consumers' facilities converted to take 1,000 BTU gas in place of the old 500 BTU product. It looks as though in another two years, perhaps, most of the country will have changed over to straight natural gas—except in isolated districts where propane may be used.

Accordingly, the group headings in the table of gas company stocks have been changed to the following: producers and pipeline companies, integrated companies, and retail distributors. "Integrated" companies mean those which combine two or three of the functions of production, transportation and wholesaling, and retailing.

## *Lower Purchasing Power of Utility Dividends Should Be Recognized*

PRESIDENT Stuart M. Crocker of Columbia Gas System, in a recent talk before the American Petroleum Institute, pointed out that regulatory commissions should give greater attention to the effects of depreciation currency on the purchasing power of earnings from common stock investments in natural gas utilities. "Certainly no one today holds out any hope that the purchasing power of the dollar will soon be restored to its 1940 level," Mr. Crocker said. "In fact, it appears that the downward trend may continue. This condition is recognized by labor, which has frequently received wage adjustments to offset the increased cost of living. Why not give similar treatment to the common stockholder of a utility? For the dollars which he invested last year or ten, fifteen, or

# 1950 RECORD OF LIFE INSURANCE INVESTMENTS

CHART I — ABSOLUTE GROWTH OF LIFE INSURANCE ASSETS — 1924 - 1950

(Of Companies Holding From 88.3% to 92.8% Of All U.S. Legal Reserve Companies. See Table I)

Billions of Dollars

NET INCREASE IN INVESTMENTS, 1948-1950
ALL UNITED STATES LEGAL RESERVE LIFE INSURANCE COMPANIES

| | 1948 | 1949 | 1950 (Estimated) |
|---|---|---|---|
| Railroad Bonds | $ 158,858,000 | $ 12,721,000 | $ 159,841,000 |
| Public Utility Bonds | 1,799,976,000 | 1,018,840,000 | 840,174,000 |
| Industrial & Misc. Bonds | 2,181,807,000 | 1,525,681,000 | 698,763,000 |
| Stocks | 37,975,000 | 201,944,000 | 319,598,000 |
| Mortgage Loans | 2,158,733,000 | 2,060,939,000 | 3,155,751,000 |
| Real Estate | 194,413,000 | 190,485,000 | 179,903,000 |
| Policy Loans & Premium Notes | 119,896,000 | 180,988,000 | 162,108,000 |
| Total Private | 6,651,658,000 | 5,291,608,000 | 5,516,138,000 |
| Total Government Bonds | —2,918,203,000 | —1,304,413,000 | —1,530,483,000 |
| Cash & Other Assets | 35,440,000 | 55,501,000 | 459,767,000 |
| Increase in Admitted Assets | 3,768,895,000 | 4,042,696,000 | 4,445,422,000 |

Other Admitted Assets
Total Admitted Assets
Policy Loans and Premium Notes
Real Estate
City Mortgage Loans
Other Corporate Bonds
Stocks
Farm Mortgage Loans
Public Utility Bonds
Railroad Bonds
Domestic, State, County and Municipal Bonds
Canadian and Other Foreign Government Bonds
U.S. Government Bonds

1924 1925 1926 1927 1928 1929 1930 1931 1932 1933 1934 1935 1936 1937 1938 1939 1940 1941 1942 1943 1944 1945 1946 1947 1948 1949 1950

December 31st of Each Year

CHART II — RELATIVE GROWTH OF LIFE INSURANCE ASSETS — 1924 - 1950

(Of Companies Holding From 88.3% to 92.8% Of All U.S. Legal Reserve Companies. See Table I)

Per Cent

Other Admitted Assets
Policy Loans and Premium Notes
Real Estate
City Mortgage Loans
Other Corporate Bonds
Farm Mortgage Loans
Stocks
Public Utility Bonds
Canadian and Other Foreign Government Bonds
Domestic, State, County and Municipal Bonds
Railroad Bonds
U.S. Government Bonds

1924 1925 1926 1927 1928 1929 1930 1931 1932 1933 1934 1935 1936 1937 1938 1939 1940 1941 1942 1943 1944 1945 1946 1947 1948 1949 1950

December 31st of Each Year

twenty years ago, is it fair that he should receive a return which does not recognize the depreciation in the value of the dollars he now receives? Regulation must recognize the rights of common stock investors."

Using the Columbia Gas System as an example (see chart on page 703), Mr. Crocker pointed out that there is a "philosophy in our business that in our enterprise the customer, the employee, and the stockholder are partners and that we in management are responsible for their interests.

"Using 1935-1939 as a base, let us see what happened to these partners. First, the customer. The price of residential gas today is approximately the same as it was during the base period so that, after we recognize the fact that he is paying for his gas today with a depreciated dollar, he is, in effect, receiving 72 per cent more gas for his money today than he was in 1935-1939.

"Next take a look at the employee. He has not fared as well as the customer but average wages and benefits have increased steadily. In 1950, even when adjusted to reflect the depreciation of the value of the dollar, average wages and benefits were about 35 per cent more than the increased cost of living.

"BUT now look at the third partner, the common stockholder. He started out all right in 1940 but then came World War II. Tax rates were increased and an excess profits tax was enacted which imposed an unfair tax burden on many utilities. Fortunately this inequity has been corrected in the current excess profits tax but during the war years of 1941 through 1945, stockholders' earnings were hit severely. After the excess profits tax was repealed in 1946, his earnings improved somewhat; but then came the construction program which depressed earnings.

"This time he was really hurt. Currently his earnings have again improved somewhat, but even today his earnings per share of common stock, when adjusted for the depreciation of the dollar, are 12 per cent less than they were in the base period.

"Obviously, if these three partners are to receive comparable treatment, something must be done for the stockholder. His earnings must be increased."

## *The Massachusetts Telephone Decision*

ON February 28th the Massachusetts Supreme Court handed down an important opinion in the New England Telephone & Telegraph Case, holding an order of the department of public utilities (dated March 18, 1949) to be confiscatory. The department had used the so-called "prudent investment" method of setting up the rate base, and the rate of return was determined by the "cost of capital" method. The allowed rate of return approximated only 4¾ per cent on an over-all basis, as a result of permitting only a 6 per cent return on capital stock and disregarding entirely the debt and the earned surplus.

The court made its ruling very definite, allowing a return of 6.23 per cent on an over-all basis. With a debt ratio of 45 per cent, this would mean about 8½ per cent return for the common stock and surplus. The court held that a considerably higher return might be "within reason" and that the percentages mentioned merely marked the level "where confiscation begins." The court stated that it had never passed on the "prudent investment" theory, but it accepted the theory in this case, since it had already been accepted by the company through stipulation on the appeal.

The original proceedings dated back to May 15, 1947, and, together with another proceeding about a year later, involved a requested increase in revenue of some $15,000,000. The department had rejected these increases but in April, 1949, permitted an increase of 5 per cent over the rates in effect in 1947, and later this was increased to 9 per cent. The court stayed these original orders, and granted the $15,000,000 increase.

The court indicated very clearly that earned surplus should be a part of the rate base—that the money belongs to the company and not to the customers.

The decision will be reported in detail in *Public Utilities Reports* and hence need not be elaborated here, but it seems important enough to warrant brief mention in this department.

While it is quite doubtful whether an over-all return of 6¼ per cent is adequate for a telephone company, nevertheless this was an improvement of nearly one-third over the ridiculously low return favored by the department.

## CURRENT UTILITY STATISTICS AND RATIOS

| | Unit Used | Latest Month | Latest 12 Mos. | Per Cent Increase Latest Month | Per Cent Increase Latest 12 Mos. |
|---|---|---|---|---|---|
| ***Operating Statistics* (*February*)** | | | | | |
| Output KWH—Total | Bill. KWH | 28.2 | 337.5 | 16% | 15% |
| Hydro-generated | " | 8.2 | — | 6 | — |
| Steam-generated | " | 20.0 | — | 21 | — |
| Capacity | Mill. KW | 69.4 | — | 9 | — |
| Peak Load (November) | " | 60.0 | — | 16 | — |
| Fuel Use: Coal | Mill. tons | 8.6 | — | 29 | — |
| Gas | Mill. MCF | 40.6 | — | 8 | — |
| Oil | Mill. bbls. | 5.6 | — | D25 | — |
| Coal Stocks | Mill. tons | 30.6 | — | 101 | — |
| ***Customers, Sales, Revenues, and Plant* (*February*)** | | | | | |
| KWH Sales—Residential | Bill. KWH | 5.2 | 51 | 16% | 14% |
| Commercial | " | 3.6 | 40 | 10 | 10 |
| Industrial | " | 10.6 | 123 | 21 | 20 |
| Total, Incl. Misc. | " | 25.8 | 291 | 15 | 13 |
| Customers—Residential | Mill. | 29.0 | — | 5 | — |
| Commercial | " | 4.2 | — | 2 | — |
| Industrial | " | .5 | — | 4 | — |
| Total | " | 35.9 | — | 4 | — |
| ***Income Account—Summary* (*February*)** | | | | | |
| Revenues—Residential | Mill. $ | 145 | 1,507 | 13% | 11% |
| Commercial | " | 100 | 1,123 | 8 | 8 |
| Industrial | " | 118 | 1,370 | 18 | 14 |
| Total, Inc. Misc. Sales | " | 398 | 4,419 | 12 | 11 |
| Sales to Other Utilities | " | 32 | 386 | 6 | 5 |
| Misc. Income | " | 23 | 205 | 9 | 7 |
| ***Expenditures*** | | | | | |
| Fuel | " | 66 | 776 | 9% | 12% |
| Labor | " | 79 | 936 | 11 | 8 |
| Misc. Expenses | " | 62 | 776 | 4 | 2 |
| Depreciation | " | 39 | 442 | 10 | 12 |
| Taxes | " | 101 | 975 | 30 | 22 |
| Interest | " | 23 | 262 | 10 | 7 |
| Amortization, etc. | " | 3 | 21 | 80 | D4 |
| Net Income | " | 81 | 824 | 3 | 6 |
| Preferred Div. (Est.) | " | 10 | 112 | 11 | 9 |
| Bal. for Com. Stk. (Est.) | " | 71 | 712 | 4 | 7 |
| Com. Dividends (Est.) | " | 46 | 507 | 5 | 13 |
| Bal. to Surplus (Est.) | " | 25 | 205 | 14 | 31 |
| ***Electric Utility Plant* (*February*)** | " | $19,223 | — | 10% | — |
| Reserve for Deprec. and Amort. | " | 3,937 | — | 8 | — |
| Net Electric Utility Plant | " | 15,286 | — | 10 | — |
| ***Utility Financing* (*February*)*** | | | | | |
| Bonds | " | 194 | 323† | 223 | D30 |
| Stocks | " | 19 | 30† | D17 | D73 |
| Total | " | 213 | 353† | 157 | D38 |
| ***Life Insurance Investments* (*January 1st-April 21st*)** | | | | | |
| Utility Bonds | " | — | 215 | — | D30% |
| Utility Stocks | " | — | 15 | — | D76 |
| Total | " | — | 230 | — | D38 |
| Per Cent of All Investments | " | — | 6% | — | D66 |

D—Decrease. *Data for all utilities (electric, gas, telephone, etc.), including refunding issues. † Two months ended February 28th.

## RECENT FINANCIAL DATA ON GAS COMPANY STOCKS

| | | 5/2/51 Price About | Indicated Dividend Rate | Approx. Yield | Share Earnings# Cur. Period | Prev. Period | % Increase | Price-Earnings Ratio | Div. Payout |
|---|---|---|---|---|---|---|---|---|---|
| ***Producers and Pipeline Companies*** | | | | | | | | | |
| O | Commonwealth Gas | 11 | $ .15 | 1.4% | $ .74d | $ .62 | 19% | 14.9 | 20% |
| S | Mississippi Riv. Fuel | 35 | 2.00 | 5.7 | 3.05m | NC | — | 11.5 | 66 |
| O | Missouri-Kans. P. L. | 45 | 1.60 | 3.6 | 1.66d | 4.32 | D62 | — | 96 |
| S | Southern Nat. Gas | 46 | 2.50 | 5.4 | 3.63m | 3.15 | 15 | 12.7 | 69 |
| O | Southwest Nat. Gas | 8 | .20 | 2.5 | .38m | .21 | 81 | — | 53 |
| O | Tenn. Gas Trans. | 24 | 1.40 | 5.8 | 1.79j | NC | — | 13.4 | 78 |
| O | Texas East. Trans. | 18 | 1.00 | 5.6 | 1.93d | 1.49 | 30 | 9.3 | 52 |
| O | Texas Gas Trans. | 18 | — | — | 1.95d | .81 | 141 | 9.2 | — |
| | Average | | | 4.3% | | | | 11.8 | |
| ***Integrated Companies*** | | | | | | | | | |
| S | American Natural Gas | 29 | $1.60 | 5.5% | $2.45d | $1.58 | 55% | 11.8 | 65% |
| S | Columbia Gas System | 13 | .80 | 6.2 | 1.19d | .87 | 37 | 10.9 | 67 |
| S | Consol. Nat. Gas | 51 | 2.25 | 4.4 | 5.03d | 3.59 | 40 | 10.1 | 40 |
| S | El Paso Nat. Gas | 27 | 1.60 | 5.9 | 2.53j | 1.65 | 53 | 10.7 | 63 |
| S | Equitable Gas | 21 | 1.30 | 6.2 | 1.94m | 1.91 | 2 | 10.8 | 67 |
| O | Interstate Nat. Gas | 37 | 2.50 | 6.8 | 2.50d* | 2.03 | 23 | 14.8 | 100 |
| O | Kansas-Neb. Nat. Gas | 18 | 1.10 | 6.1 | 1.95d | 1.63 | 20 | 9.2 | 56 |
| C | Lone Star Gas | 27 | 1.40 | 5.2 | 2.25m | 1.73 | 30 | 12.0 | 62 |
| S | Montana-Dakota Utils. | 17 | .90 | 5.3 | 1.55d | 1.25 | 24 | 11.0 | 58 |
| O | Mountain Fuel Supply | 17 | .60 | 3.5 | .99d | .91 | 9 | 17.2 | 61 |
| C | National Fuel Gas | 13 | .80 | 6.2 | 1.23d | .88 | 40 | 10.6 | 65 |
| O | National Gas & Oil | 8 | .40 | 5.0 | 1.04d | .62 | 68 | 7.7 | 38 |
| S | Northern Nat. Gas | 35 | 1.80 | 5.1 | 2.13d | 2.21 | D4 | 16.4 | 85 |
| C | Oklahoma Nat. Gas | 31 | 2.00 | 6.5 | 3.14f | 2.87 | 9 | 9.9 | 64 |
| C | Pacific Pub. Serv. | 14 | 1.00 | 7.1 | 2.23d | 2.08 | 7 | 6.3 | 45 |
| S | Panhandle Eastern P. L. | 45 | 2.00 | 4.4 | 2.73m | 2.46 | 11 | 16.5 | 73 |
| S | Peoples Gas Lt. & Coke | 118 | 6.00 | 5.1 | 10.02d | 8.84 | 13 | 11.8 | 60 |
| O | Southern Union Gas | 19 | .80 | 4.2 | 1.58s | .95 | 66 | 12.0 | 51 |
| S | United Gas | 22 | 1.00 | 4.5 | 1.57d | 1.43 | 10 | 14.0 | 64 |
| | Average | | | 5.4% | | | | 11.8 | |
| ***Retail Distributors*** | | | | | | | | | |
| O | Atlanta Gas Light | 23 | $1.20 | 5.2% | $1.86d | $1.90 | D2% | 12.4 | 65% |
| C | Bridgeport Gas | 27 | 1.40 | 5.2 | 1.47d | 1.88 | D22 | 18.4 | 95 |
| O | Brockton Gas Lt. | 22 | 1.40 | 6.4 | 1.44d | 1.48 | D3 | 15.3 | 97 |
| S | Brooklyn Union Gas | 46 | 2.40 | 5.2 | 3.60d | 4.32 | D17 | 12.8 | 67 |
| O | Central Elec. & Gas | 10 | .80 | 8.0 | 1.06d | .98 | 8 | 9.4 | 75 |
| C | Consol. Gas Util. | 12 | .75 | 6.3 | 1.50j | 1.53 | D2 | 8.0 | 50 |
| O | Hartford Gas | 38 | 2.00 | 5.3 | 2.68d | 2.67 | — | 14.2 | 75 |
| O | Haverhill Gas Lt. | 34 | 1.80 | 5.3 | 2.01m | 2.09 | D4 | 16.9 | 90 |
| O | Houston Nat. Gas | 17 | .80 | 4.7 | 1.06ju | 1.45 | D27 | 16.0 | 75 |
| O | Indiana Gas & Water | 24 | 1.40 | 5.8 | 2.19f | 1.88 | 16 | 11.0 | 55 |
| O | Jacksonville Gas | 34 | 1.40 | 4.1 | 4.97d | 4.77 | 4 | 6.8 | 28 |
| C | Kings County Ltg. | 7½ | .40 | 5.3 | .45d | .64 | D30 | 16.7 | 89 |
| S | Laclede Gas | 7 | .40 | 5.7 | .82d | .68 | 21 | 8.5 | 49 |
| O | Minneapolis Gas | 18 | 1.05 | 5.8 | 1.57d | 1.04 | 51 | 11.5 | 67 |
| O | Mobile Gas Service | 29 | 1.60 | 5.5 | 3.44d | 2.72 | 26 | 8.4 | 47 |
| O | National Util. of Mich. | 10 | — | — | .85d | .45 | 89 | 11.8 | — |
| O | New Haven Gas Lt. | 28 | 1.60 | 5.7 | 1.92d | 1.70 | 13 | 14.6 | 83 |
| S | Pacific Lighting | 52 | 3.00 | 5.8 | 5.88d | 2.86 | 106 | 8.8 | 51 |
| O | Providence Gas | 10 | .50 | 5.0 | .57d | .56 | 2 | 17.5 | 88 |
| C | Rio Grande Valley Gas | 2 | .12 | 6.0 | .19d | .19 | — | 10.5 | 63 |
| O | Rockland Gas | 35 | 1.70 | 4.9 | 4.63d | 4.41 | 5 | 7.6 | 37 |
| O | Seattle Gas | 14 | .60 | 4.3 | 1.57m | 1.36 | 15 | 8.9 | 38 |
| O | So. Jersey Gas | 15 | — | — | .53d | .41 | 29 | — | — |
| S | United Gas Improve. | 29 | 1.40 | 4.8 | 2.11m | 2.03 | 4 | 13.7 | 66 |
| S | Washington Gas Light | 25 | 1.50 | 6.0 | 2.87m | 1.73 | 66 | 8.7 | 52 |
| | Average | | | 5.5% | | | | 12.0 | |

## RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER COMPANIES

| | | 5/2/51 Price About | Indicated Dividend Rate | Approx. Yield | Share Earnings# Cur. Period | Prev. Period | % Increase | Price-Earnings Ratio | Div. Payout |
|---|---|---|---|---|---|---|---|---|---|
| ***Communications Companies*** | | | | | | | | | |
| | *Bell System* | | | | | | | | |
| S | Amer. Tel. & Tel. | 155 | $9.00 | 5.8% | $11.97d | $8.03 | 49% | 12.9 | 75% |
| O | Cinn. & Sub. Bell Tel. | 76 | 4.50 | 5.9 | 4.59d | 4.79 | D4 | 16.6 | 98 |
| C | Mountain Sts. T. & T. | 101 | 6.00 | 5.9 | 7.32m | 5.55 | 32 | 13.8 | 82 |
| C | New England Tel. | 112 | 6.00 | 5.4 | 12.19d | 7.19 | 70 | 9.2 | 49 |
| S | Pacific Tel. & Tel. | 109 | 7.00 | 6.4 | 8.43d | 4.84 | 74 | 12.9 | 83 |
| O | So. New Eng. Tel. | 34 | 1.80 | 5.3 | 2.12d | 1.79 | 18 | 16.0 | 85 |
| | Averages | | | 5.8% | | | | 13.6 | |
| | *Independents* | | | | | | | | |
| O | Central Telephone | 10½ | $ .80 | 7.6% | $1.06d | $1.21 | D12% | 9.9 | 75% |
| S | General Telephone | 28 | 2.00 | 7.1 | 2.65m | 1.52 | 75 | 10.6 | 75 |
| C | Peninsular Tel. | 40 | 2.50 | 6.3 | 3.86m | 3.97 | D3 | 10.4 | 65 |
| O | Rochester Tel. | 13 | .80 | 6.2 | 1.52d | .90 | 69 | 8.6 | 53 |
| ***Transit Companies*** | | | | | | | | | |
| O | Chicago SS. & S.B. | 11 | $1.00 | 9.1% | $1.67d | $ .91 | 84% | 6.6 | 60% |
| O | Chicago No. Sh. & Mlke. | 6 | — | — | .46d | NC | — | 13.0 | — |
| O | Cinn. St. Ry. | 5½ | .30 | 5.5 | .19d | .84 | D77 | — | 158 |
| O | Dallas Ry. & Term. | 12 | 1.40 | 11.7 | 1.76d | 1.39 | 27 | 6.8 | 80 |
| S | Greyhound Corp. | 11 | 1.00 | 9.1 | 1.25d | 1.22 | 2 | 8.8 | 80 |
| O | Kansas City P. S. | 2½ | — | — | — | — | — | — | — |
| O | Los Angeles Transit | 6 | .50 | 8.3 | .51d | .84 | D39 | 11.8 | 98 |
| S | Nat. City Lines | 11 | 1.00 | 9.1 | 1.90d | 1.75 | 9 | 5.8 | 53 |
| O | St. Louis P.S. A | 9 | .50 | 5.6 | .41d | .48 | D15 | — | 122 |
| O | Syracuse Transit | 21 | 2.00 | 9.5 | 2.89d | .62 | 366 | 7.3 | 69 |
| O | United Transit | 3½ | — | — | .68d | .55 | 24 | 5.1 | — |
| | Averages | | | 8.5% | | | | 8.2 | |
| ***Water Companies*** | | | | | | | | | |
| | *Holding Companies* | | | | | | | | |
| S | Amer. Water Works | 8 | $ .50 | 6.3% | $1.01d | $ .81 | 25% | 7.9 | 59% |
| O | N.Y. Water Service | 27 | .80 | 3.0 | 1.95d | 1.02 | 91 | 13.8 | 41 |
| | *Operating Companies* | | | | | | | | |
| O | Bridgeport Hydraulic | 32 | $1.60 | 5.0% | $1.45d | $1.57 | D8% | 22.1 | 110% |
| O | Calif. Water Serv. | 28 | 2.00 | 7.1 | 2.44m | 2.24 | 9 | 11.5 | 82 |
| O | Elizabethtown Water | 102 | 6.00 | 5.9 | 6.96d | 8.37 | D17 | 14.7 | 86 |
| S | Hackensack Water | 31 | 1.70 | 5.5 | 2.73d | 2.68 | 2 | 11.4 | 62 |
| O | Indianapolis Water | 18 | .80 | 4.4 | 1.20d | 1.33 | D10 | 15.0 | 67 |
| O | Jamaica Water Supply | 22 | 1.50 | 6.8 | 2.33d | 1.28 | 82 | 9.4 | 64 |
| O | Middlesex Water | 52 | 3.00 | 5.8 | 6.46d | 4.87 | 33 | 8.0 | 46 |
| O | New Haven Water | 56 | 3.00 | 5.4 | 3.25d | 3.45 | D6 | 17.2 | 92 |
| O | Ohio Water Service | 21 | 1.50 | 7.1 | 2.10m | 1.65 | 27 | 10.0 | 71 |
| O | Phila. & Sub. Water | 26 | .80 | 3.1 | 3.49d* | 3.01 | 16 | 7.4 | 23 |
| O | Plainfield Union Wt. | 63 | 4.00 | 6.3 | 5.09d* | 5.02 | 1 | 12.4 | 79 |
| O | San Jose Water | 32 | 2.00 | 6.3 | 2.84m | 2.68 | 6 | 11.3 | 70 |
| O | Scranton-Spring Brook | 13 | .90 | 7.0 | 1.12d | .85 | 32 | 11.6 | 80 |
| O | Southern Cal. Water | 8 | .65 | 8.1 | .75d | .78 | D3 | 10.7 | 89 |
| O | Stamford Water | 55 | 2.00 | 3.6 | 2.10d | 2.35 | D11 | 26.2 | 95 |
| O | West Va. Wt. Service | 17 | 1.20 | 7.1 | 1.31d | 1.29 | 2 | 13.0 | 92 |
| | Averages | | | 5.9% | | | | 13.2 | |

D—Deficit. C—Curb exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. * Based on average number of shares outstanding. # In order to facilitate comparisons, earnings are calculated on present number of shares outstanding, except as otherwise indicated. d*—December, 1949. ju—July. s—September. d—December. j—January, 1951. f—February. m—March. NC—Not comparable.

# What Others Think

## Regulation *versus* Federal Competition

MEMBERS of the Maryland Utilities Association recently heard a strong defense of state utility regulation and a forthright attack against encroaching Federal regulation and competition in a speech delivered by Senator Herbert R. O'Conor of Maryland at their annual conference held in Baltimore.

The Senator prefaced his remarks by referring to a tremendous world-wide struggle in progress, the outcome of which will determine the direction in which mankind will move in the years ahead. He said that it is a struggle for the control of men's minds—a battle to the death between the allure of false ideologies and the principles of justice and morality upon which our democracy and the inherent dignity of the individual rest.

He then turned to the struggle raging in this country between those who favor transferring and those who oppose transferal to a huge central government more important functions of government which, over a century and a half of our national existence, traditionally have been reserved to the states and local government. He added:

> In these efforts towards centralization, to the successful prosecution of which many high in public life in America have committed themselves, openly or covertly, the field of public utilities has been and increasingly will be one of the main battlegrounds. The Federalists, if I may so term them, with due apologies to Alexander Hamilton, already have made alarming progress, as evidences of which might be cited TVA; the Southeastern, Southwestern, and Bonneville Power administrations; and the recent Supreme Court decision in the East Ohio Gas Case.

He stated that the ultimate result of these proposals would be to sound the death knell for more privately owned electric companies, which would be superseded by Federal power authorities serving more and more and more electric customers. He continued:

> In resisting to the utmost these projected further inroads into a field which has more than justified its claims to government support rather than governmental opposition, you will be fighting not only your own battle. You will be taking part in a strategic phase of the great over-all contest between Federal bureaucracy and the 48 states over the right to regulate in utility and other fields for the best interests of our people.

IN discussing the question, "Is the trend toward Federal domination of regulation an irresistible force?" he observed that it has become fashionable, in recent years, for some economists who accept the idea of nationalization of our regulation of public utilities to speak first of all about a "trend" towards Federal regulation, at the expense of state regulation. He stated that then, hypnotized by their own premise—that all regulation is moving towards Washington—they jump to the unsound conclusion that such a trend of regulatory authority is somehow inevitable and desirable and, in any event, irreversible. The Senator, in disagreeing, admitted that the premise has some foundation in fact.

He called it the old story of centralizing authority in the hands of a Federal government. And he commented that there has never been a dictator who did not start out on his course by centralizing government authority—removing it

as far away as possible from the people. He warned that it could be the same road public utility regulation in the United States will travel. He continued:

> In my opinion, Congress can help this situation. I go further and say that this trend is not only reversible, but that it should be reversed, if the nation is not to move nearer the same brand of administrative absolutism which characterized the corporate state. History is a graveyard of nations which were unable to stop the centralization of regulatory and other economic powers, including taxation —short of overbalance, collapse, and resulting destruction.
>
> What is the primary reason for regulation of utilities? It is to take the place of the regulation which normally results automatically from free competition. There are elements of monopoly in most utility businesses, however, so competition cannot be completely free.

THE Maryland Senator then discussed the elements of competition in the regulated industries: "First, virtually all utilities are facing increasing direct competition with other products, to say nothing of the fierce indirect competition for the consumer's dollar. This is an incident of the scientific development of our times. As such competition increases, the regulation of the market place increases. As the soundest of all regulation, this should be permitted to perform its economic function of regulating the utility.

"The second kind of competition is that from other producers of the same product or service. This, too, has some local aspects at least in the electric utility industry where there are many municipally owned utilities. In addition to this, a new factor has appeared in modern times—it is the competition of the Federal government itself." Of the latter he noted:

> During the last two decades, Federal generation of kilowatt hours increased from less than 1 per cent of the nation's total supply for public sale, to about 15 per cent, and the blueprints are in process for more expansion. Here is competition with a vengeance, for these plants are tax-free, with no economic compulsion to make a profit and no economic penalty for losses.

He went on:

> The bearing of this situation on the problem of utility regulation is obvious. If the largest competitor of the investor-owned electric utilities is to be the Federal government itself, then regulation of these utilities ought to be left to the independent state agencies. Certainly, Federal agencies are less likely to be disinterested in their thinking because they all owe their existence to the same administration which supports a policy of regulation on the one hand and competition on the other.
>
> I am aware of the argument of those who think that, regardless of constitutional law, there is some inescapable virtue in centralized, uniform Federal regulation—as distinguished from that of 40-odd state commissions.

THE Senator pointed out that Federal regulation is proper in those fields where substantial interstate commerce is clearly involved. These are major categories of operation for gas, electric, transportation, and communication utilities. These areas of jurisdiction already permit the economic regulation required by economic interdependence. He observed that in these fields a number of Federal regulatory agencies have done some excellent work. But he added that inclusion of these areas in such a discussion as this only tends to confuse the issue. "What is really at issue is the marginal case where local operations clearly predominate and where extension of Federal regulation is nevertheless proposed or is already asserted."

O'Conor then considered the evaluation of regulatory practices. He observed that the overwhelming majority

of regulatory principles and practices in effect today, including most of those advocated by the Federal regulatory commissions, actually originated in the state commissions. They were designed, cut, tried, and fitted by the staffs of the state commissions. As a result, he claimed that they were not uniform because they were developed by various men and various methods at different times and places.

He referred to recent remarks by David E. Lilienthal who, in writing in *Collier's* magazine, said: "No one can tell in advance where great new ideas will come from . . . We've always tried to encourage people to have such ideas; never before have we turned over to anyone (much less to our government) the power to limit the circle from which ideas come."

He went on to quote Mr. Justice Jackson in his dissenting opinion in the Connecticut Light & Power Company Case: " . . . the insulated chambers of the states are still laboratories where many lessons in regulation may be learned by trial and error on a small scale without involving a whole national industry in every experiment."

As evidence of a move in Congress to do something about the situation, O'Conor referred to his recently introduced bill (S 1084) to amend the Natural Gas Act so as to place intrastate distribution of natural gas under the public service commission rather than the Federal Power Commission.

As a basis for the need of such a measure, the Senator pointed to the U. S. Supreme Court ruling in the East Ohio Case, where a utility, engaged for the most part in the intrastate distribution of gas, was declared subject to the jurisdiction of the Federal Power Commission because it receives natural gas from a supplier outside the state.

He stated that the action of the Federal Power Commission in claiming jurisdiction is entirely in line with other efforts to inject the Federal government more and more into local affairs. He continued:

Again, though, it is a part of the frontal attack on state and local rights and as such must be resisted to the very end. I shall push for prompt action in the committee and on the Senate floor because the issue involved is one that has arisen in other jurisdictions as well. In one instance Federal jurisdiction has been asserted where less than 1 per cent of the facilities involved were in interstate commerce; in another, only two-thirds of 1 per cent of gross sales were the basis for jurisdiction. No single issue raised in this field can be neglected, for every time a Federal agency is successful in its encroachment the pattern becomes more definite and more difficult to oppose successfully.

O'Conor then turned to the recent report of the Water Resources Policy Commission. He stated that, judging from the conclusions presented, the members of that commission must feel that complete centralization is inevitable. He claimed that they are doing their utmost to bring about such Federal control in the field of their study. He went on:

It can be said of their report, I believe, that the program recommended would conserve water resources but not the rights of local government. Such an analysis should be kept in the minds of each one of us, as a warning of future gradual extinction of the system of private enterprise in the utilities field. You gentlemen are, I am sure, alert to the implications of not only this report but also of the conclusions of many similar studies made in these times. On the legislative level some of us are thoroughly aware of the situation, and doing our best by voting against all such proposals.

He further stated that TVA, REA, and the many other Federal establishments and facilities have made inroads into the utility sphere of private enterprise. He added that what has happened up to now, however, is relatively insignificant compared to what the situa-


"HEY MABEL, YOU'RE WANTED ON THE TELEPHONE!"

tion will be if the valley authority idea, and now the water resources program, are ever fully or even partially effectuated.

He then told the utility men that, in resisting further inroads into their field, they would be fighting not only their own battle but taking part in a strategic phase of the over-all contest in which the states were being threatened increasingly with the loss of a great many of their inherent rights. He stressed that nothing could emphasize this more clearly than the vast scope and detail of the program which the Water Resources Policy Commission has proposed. To this he added:

> The commission's recommendations, it seems to me, pose in unmistakable terms this basic question: Are the people of this country, through their state and local governments, fit to be entrusted with the continuing development of the resources which have done so much to make this country great? Or is the attainment of such progress too much for individual and local capabilities, and to be undertaken and controlled only by a bureaucratic, socialized Federal system?

O'Conor went on to say that on numerous occasions in the past, and more frequently in recent years, there has been apparent a lack of sympathy on the part of government with privately owned electric companies. He continued that regardless of the fact that such companies have prospered and developed

splendidly and solely as a result of individual initiative and enterprise, the new theory among too large a section of high government officials is that government should preëmpt this field. He noted such persons argue that ownership of these national resources is vested in all the people, and therefore development and regulation should be in the hands of government, because, according to them, only thus can the people's interests be adequately served. The Senator then said:

> One has only to study the records of privately owned companies, with their history of large tax payments and businesslike methods, as compared to government undertakings, financed by your taxes, to arrive at a conclusion as to which system is better for the country.

In contrast, he pointed to the economic well-being of the people in countries where government has achieved the ultimate in paternalism. He observed that to do so is to be confirmed more thoroughly than before in the conviction that the American system of private enterprise is too valuable, too sound for us ever to yield to any persuasive arguments for further government intervention.

Senator O'Conor closed by stressing that he would not contend that in every case local handling of regulatory matters or development of resources has been more efficient than is sometimes possible in projects handled by Federal bureaus or agencies. However, he observed that there is a vastly larger question involved than can be adequately determined solely on the basis of individual deficiencies or excellencies. As an example, he pointed out that even if some betterment in administration, such as improved ways for conserving our resources, might result from Federal control in certain localities, the price entailed for such benefits is far too high to pay for any such local or temporary achievement.

## Natural Gas in Relation to National Defense

NATURAL gas in relation to national defense was the subject of a recent speech given by Paul Kayser, president of the El Paso Natural Gas Company, before the division of production of the American Petroleum Institute in Amarillo, Texas. Kayser noted that in appraising any commodity in relation to the national defense program, two things must be borne in mind: (1) to what extent does the community contribute to the production of munitions and other war materials and to the actual training of troops; and (2) to what extent is it necessary for the maintenance of the economy at a high productive level.

As an example, he stated that copper is one of the most important materials for the production of munitions. Natural gas supplies the fuel for the production of more than 80 per cent of all copper produced in the United States.

He went on to point out that potash is an important substance in the manufacture of explosives and in the production of fertilizers to maintain high agricultural production. Natural gas supplies the fuel for the production of 95 per cent of the potash produced in this country. The gas industry executive continued:

> More than 50 per cent of the great plants of the chemical industry are located on the Gulf coast of Louisiana and Texas, because of access to large volumes of natural gas at low cost from the vast gas fields of that area. No war can be fought successfully and no economy can be maintained in modern times without a vigorous and expanding chemical industry. Natural gas is essential for this purpose.

HE then pointed out the increasingly important rôle of natural gas in

the steel and aluminum industry. He stated:

> In the making of steel, natural gas is an absolute essential in certain heat-treating processes. It is imperative that the steel mills all over the country —in Pittsburgh, Youngstown, Gary, Chicago, Houston, Salt Lake City, Los Angeles, and San Francisco — have dependable and expanding quantities of natural gas to maintain an expanding steel production, the most vital sinew of defense.

He continued:

> Natural gas is playing an increasing part in the production and processing of aluminum, as witnessed by the fact of the delivery of large volumes of gas per day for use in aluminum plants in Tennessee and the recent location in the Corpus Christi area of an aluminum plant to use 50,000,000 cubic feet of gas per day for the production of aluminum for the defense program.

KAYSER then turned to the question of pipeline expansion in the emergency. He stated:

> Whether or not new lines are to be built into new areas, and the extent of the expansion of present systems in interstate commerce, is a matter for the joint decision of the Federal Power Commission and the Petroleum Administrator for Defense. This question should be decided on full consideration of all the facts in hearings before the FPC, including the vital question of the availability of other fuels. The Natural Gas Act has not been repealed and the certificate provision of such act is as valid as it ever was and undoubtedly will continue in effect after this emergency has passed.

On the subject of gas industry control by the Petroleum Administration for Defense, Kayser said:

> I wish to say here, and I am sure I can speak for the entire industry, the appointment of the assistant deputy [of the Petroleum Administration for Defense] and the gas council is highly satisfactory to the industry and should promote a most efficient and coöperative implementation of the Defense Act in respect to gas. The assistant deputy administrator [C. P. Rather] is a man of broad experience in the industry and is well qualified for this very difficult job. The council plainly has been carefully chosen from every phase of the industry, and each section of the country is properly represented.

KAYSER then turned to a recent panel discussion of the available fuel resources of the nation and the formulation of a national fuel policy in respect thereto, called by the Senate Committee on Interior and Insular Affairs.

He stated that the building of synthetic plants now, with government help, to make all types of liquid and gaseous fuels was advocated by the coal interests. The answer of the gas industry to this restrictive policy, presented to the panel and members of the Senate committee, is based on the fact that there are approximately thirty years' proved reserves of natural gas to support the present rate of consumption of gas in this country. But the rate of discovery of reserves exceeds consumption each year by more than double the consumption.

He went on to say that the past 5-year period has been the period of greatest expansion in the history of the natural gas business and yet during that period the proved reserves of natural gas, after consumption, have risen from 160 trillion cubic feet to 185 trillion cubic feet. Despite the phenomenal increase in the use of this commodity, the known reserves have increased more than 25 trillion cubic feet.

Kayser continued:

> So long as this trend continues there is no occasion to be concerned about the exhaustion of the reserves. So long as this trend continues there is no necessity to construct or put in operation plants for the production of

synthetic high BTU gas from either coal or oil shale. The technology of the construction and operation of such plants should be fully developed as rapidly as such technology can be advanced, but so long as the reserves are rising each year there is certainly no occasion to put such plants into commercial production.

IN answer to the charge that the natural gas industry was displacing other fuels, Kayser noted that the natural gas industry has in the past and is now making a permanent contribution to a more efficient economy than has existed heretofore. He added that by taking present freight rates for coal and present costs of transporting gas by large diameter, high-pressure pipelines and, likewise, costs of transporting oil through large diameter, high-pressure pipelines, it can be demonstrated that the transportation of a unit of energy—namely, a kilowatt hour—by means of coal by railroad is the most inefficient method of transportation of such unit of energy; that the most efficient transportation of such unit of energy is that of oil by high-pressure, large diameter pipeline (with the exception of tanker transportation where water transportation is available), and that the next most efficient method of transporting a unit of energy is by the transport of 1,000 BTU natural gas by high-pressure, large diameter pipe-lines. He continued with the following:

Actually, the natural gas industry, in developing and expanding as it has, is *not* disrupting the nation's economy but is building a more stable and efficient economy for the use of our natural resources.

Kayser then discussed the scientific advances made on shale oil extraction:

Technology for the construction and operation of synthetic plants has already progressed to the point that competent engineers tell us that most petroleum products and 900 BTU gas can be made from coal and oil shales. Further advances should be made as rapidly as human ingenuity can go, but there is certainly no necessity to put such plants into commercial operation so long as our reserves are expanding more rapidly than our consumption. Whenever we turn over the hill of our gas reserves there will be time enough to construct and place in operation plants for the making of synthetic gas from the available resources of coal and oil shale.

Kayser concluded that the practical thing to do is for us to continue to use the resources of natural gas and petroleum that we have, because, in so doing, we are developing a system of transportation and marketing that will be available to take advantage of the use of synthetic fuels when necessary.

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*"THE accumulation and productive investment of savings should be consistently encouraged as an important factor to meet the demands for a growing output of useful goods and services in our growing population. This growth calls for continuous adjustment to meet the changing demands of an improved living standard. The redistribution of the nation's man power and resources to meet those demands of progress is thus one of the major problems now facing American agriculture, industry, and commerce. The accomplishment of that objective calls for stimulating rather than repressing the people's inventive resourcefulness, business initiative, and labor mobility."*

—CHARLES R. COX,
*President, Carnegie-Illinois Steel Corporation.*

# The March of Events

## In General

### Pipeline Dispute Will Go to Court

EL PASO NATURAL GAS COMPANY was recently reported to be preparing to go to court to clear up a dispute with the Interior Department that has halted construction of its $44,500,000 San Juan pipeline in northern Arizona.

The president of El Paso Natural Gas said a suit would be filed "in the near future" in Federal district court in Washington, D. C., to determine the utility's legal obligation as a common carrier. He said he was hopeful the suit would lead to preliminary agreement with the Interior Department to allow the company to resume construction of the line. Only about 30 miles or so of the 400-mile line remains to be laid.

The Department of Interior notified El Paso Natural Gas several weeks ago that right of way through public lands of the last 16 miles of the line in northern Arizona would not be granted unless El Paso met certain conditions. The department entered the dispute because the line crosses the Navajo reservation over which the department has jurisdiction.

## California

### State Should Have Power to Regulate Contracts

GOVERNOR Earl Warren declared recently the state should have the power to regulate contracts between private utility companies and their affiliated organizations. The governor made this comment in connection with legislation which would grant such power to the state public utilities commission.

The assembly public utilities and corporations committee has referred the bill to an interim committee for further study. But Assemblyman Rosenthal of Los Angeles, author of the bill, said he would ask to withdraw it to the floor.

### Central Valley Resolution Adopted

THE state senate recently adopted a resolution asking for a state study to determine the feasibility of California's purchasing the Federal government's interest in the Central Valley project.

Senator Hatfield (Republican, Merced) is author of the resolution.

## Connecticut

### Agree State Cannot Control Gas Line Location

GOVERNOR Lodge and House Majority Leader Shapiro agreed recently that the state has no authority to control the location of natural gas pipelines in Connecticut.

The only authority the state has in

connection with these pipelines, they said, concerns "health, safety, and public convenience." A bill was reported being drafted by the public utilities committee of the state legislature that would deal chiefly with these features.

Mr. Shapiro made known his views following a GOP house caucus last month that discussed the pipeline situation.

Governor Lodge said state control of pipeline location is doubtful because of possible conflict with the interstate commerce clause of the United States Constitution. The Federal Natural Gas Act of 1938 gives pipeline companies the right of eminent domain in taking land for pipelines.

The judiciary committee was expected, in another bill, to include a provision that appeal from condemnation awards in pipeline cases shall be tried by jury and would make these actions preferred cases in courts to assure speedy adjudication.

The public utilities committee bill was expected to empower the state public utilities commission to order pipeline companies to make the gas detectable by odor and to make certain adjustments in their lines so as to prevent interference with hospitals, schools, and public buildings.

The state attorney general subsequently told the governor that in his opinion the state can regulate the location of natural gas pipelines. When he filed his opinion with the governor he also submitted a sample bill for consideration by the legislature. That bill would describe natural gas as inherently dangerous and would require pipeline companies to be subject to rules and regulations of the state commission pertaining to layout, construction, and operation of pipelines.

# Florida

## Utility Fee Proposed

A METHOD of having utilities regulated by the state railroad and public utilities commission pay for the commission's operation was proposed recently in the senate.

The senate's finance and taxation committee proposed that utilities be assessed fees for paying the commission's expenses in ratio to their gross incomes. The bill contains no set system of fees.

The measure in effect provides that the state comptroller figure out ratios of payments based on the amount of state funds appropriated for the commission by the state.

Introduction of the bill followed passage of the act to have the commission regulate private electric power and gas companies. Some senators objected to that bill because it contained no provision for having utilities pay for the costs of being administered by the commission.

## Seek Commission Pay Raise

SPONSORED by eleven senators, a bill was introduced in the state legislature recently to raise the pay of members of the state railroad and public utilities commission to $9,500 a year from $7,500. The raise would become effective July 1st.

The salary increase would help compensate the commissioners for added duties they will have in regulating privately owned gas and electric public utilities in the state. The bill providing for their regulation cleared the state legislature on May 2nd.

# Kentucky

## Court Approves Consolidation

THE state court of appeals on May 1st approved consolidation of Louisville Railway Company and Capital Transit Company of Frankfort.

The plan calls for the two city bus

lines to be merged under the name of Louisville Transit Company through an exchange of stock. By that means the Louisville Company's $5,000,000 stock deficit could be wiped out. After that the sponsors of the plan expect to begin paying dividends again on preferred stock.

Stockholders of the Louisville Company owning 9 per cent of the company's preferred stock fought the consolidation. They claimed the proposed exchange of stock in the Louisville Company for that in the new one would work in favor of holders of common stock and against those owning preferred.

Appellate Judge Milliken said the proposal was legal and that it was obvious that the corporation and all its stockholders would benefit.

# Maryland

## Court Invalidates Contract

A 3-PARTY contract between the Pennsylvania Water & Power Company, the Consolidated Gas, Electric Light & Power Company, and Safe Harbor Water Power Company was invalidated recently in Federal court by Judge Albert V. Bryan, of the eastern district of Virginia.

Judge Bryan, who presided at the trial of the case in Federal court at Baltimore, ruled that the 1931 contract violates the Sherman Anti-Trust Act and breaks Pennsylvania law by reducing Safe Harbor "from a public utility to an impotent agency of the other parties."

A spokesman for Penn Water asserted that the decision would in no manner affect the supply of electric power in Baltimore or the rates charged local consumers.

The action of Judge Bryan followed the invalidation of a similar contract between Penn Water and Consolidated, involving the sale of hydroelectric power generated at Penn Water's Holtwood, Pennsylvania, plant.

The question of an appeal was said to be under consideration.

# Missouri

## Increased Rates Sought

INCREASES in electric rates, totaling $2,800,000 annually on the basis of 1950 sales, is sought by the Kansas City Power & Light Company. Applications were filed recently with the state public service commission in Jefferson City and the Kansas Corporation Commission in Topeka.

For urban residential service, affecting all consumers in Kansas City, Missouri, and the immediate adjacent territory, the sought-for rates would carry an increase of one-half cent an hour up to 120 hours. The minimum monthly bill of 50 cents would remain unchanged.

The Missouri application asked that the new rates become effective in thirty days, which would be June 1st. No date was given in the Kansas application.

All classes of customers would be affected—residential, rural, commercial, and industrial—under the proposals. The utility serves approximately 196,000 customers in Kansas City, Missouri, and in twenty counties of Missouri and Kansas.

## Suit Filed to Test Validity of King-Thompson Act

THE State Board of Mediation recently asked the state supreme court to determine the constitutionality of the King-Thompson Act, which prohibits strikes in public utilities.

Daniel C. Rogers, chairman of the board, asked the supreme court for a writ of mandamus to compel Elmer Pigg, state comptroller, to pay the salaries and expenses of the board for April.

Early last month, J. E. Taylor, attorney general, rendered an opinion that the act is unconstitutional. Later he directed Pigg to stop payment of salaries and expenses of the board based on his opinion.

# New Hampshire

## Rate Boost Requested

A $2,250,000 boost in electric rates was formally requested early this month by the Public Service Company of New Hampshire.

The company's attorney made known the utility's exact revenue needs for the first time, when he filed a brief ending the firm's more than year-long fight for a revision of its rates, with the state public service commission. The request was taken under advisement by the commission.

# New Jersey

## Senate Splits Utility Bills

THE state senate passed one important utility bill and killed another in the closing hours of the final session of the legislature early this month.

Approved by a vote of 13 to 4, without any floor discussion, was a measure by Assemblyman Shershin (Republican, Passaic) which would set up a new optional formula that the state utilities commission could employ in fixing bus fares.

Allowed to die was an administration bill which would have permitted the state attorney general to retain special counsel and experts to contest utility applications for increased rates or fares and have the costs assessed against the utility.

The Shershin Bill, as approved in its final form, included both the Public Service transportation companies, as well as all small bus companies. It establishes an "operating ratio" as a substitute for a rate base and provides, in effect, that bus companies may earn up to 10 per cent net profit on their gross revenues.

# Ohio

## Commissioner Joins Utility

HARRY M. MILLER, a member of the state public utilities commission since February 1, 1941, recently was elected a vice president of the Columbus & Southern Ohio Electric Company.

Miller resigned his post on the commission April 30th. He had served as chairman of the commission from 1947 to 1949 and last year was president of the National Association of Railroad and Utilities Commissioners.

# Texas

## Rate Boost Granted

THE Southwestern Public Service Company has been granted a 10 per cent increase in electric rates to add an estimated $1,100,000 to its operating revenues.

Residential and commercial customers are affected in Texas and New Mexico, where the company derives about 95 per cent of its gross electric utility revenues.

Most of the increases, granted by Texas municipalities and the New Mexico Public Service Commission, were made effective for April, and all will be in effect this month.

# Progress of Regulation

## Certificate Amendment Eliminating Restrictions on Common Stock Dividends Disapproved

At a rehearing of a gas company's petition for authority to file an amended certificate of incorporation, the New York commission affirmed its earlier decision approving three and rejecting two of the amendments.

One of the amendments under consideration at the rehearing pertained to a restriction on the declaration of common stock dividends. This provision required the company to make an allowance for annual depreciation expense before determining the net income available for dividends. It required that this allowance be not less than 12½ per cent of the gross revenues less maintenance expenses and the cost of purchased gas.

The commission said that as a general rule restrictions on the payment of common stock dividends are designed to protect the interest of security holders and maintain as far as possible a healthy capital structure. In this case the commission considered the restrictions a safeguard against dividend arrearages which would adversely affect the company's credit and possibly disrupt its capital structure.

The commission also pointed out that the company had two other proceedings pending before it involving rates for manufactured gas and the introduction of natural gas. Because of the changes in rates and operating practices which would take place upon the conclusion of these proceedings, the company's earnings would fluctuate from time to time. The commission felt that until earnings were stabilized the restriction on dividend payments should be continued.

In commenting on the fact that the Securities and Exchange Commission had originally insisted on this restriction being included in the certificate, the public service commission made the following statement:

> . . . the interpretive powers of a prophet are not required for a general understanding of why the Securities and Exchange Commission insists that restrictions on common stock dividends be applied, not only against the Kings County Lighting Company, but also to utility companies emerging from reorganization proceedings under its jurisdiction.

The other amendment pertained to the company's enlarging its operations. It was disapproved because of the absence of evidence that it would be in the public interest to permit the company to operate in all five boroughs instead of just Kings county. The testimony of company witnesses in support of the amendment indicated that it was more convenient for the board of directors to hold meetings in New York county than in Kings; that the company borrowed money and maintained an account in a bank in New York county; and that two of the points at which it received natural gas were counties other than Kings. Such testimony was considered insufficient.

Finally, the commission rejected a request that the certificate be approved as a whole rather than in three separate amendments, because of the added cost to the company to prepare and file the

separate certificates. The company is in its present position, the commission said, not because of anything the commission had done but because proper resolutions had not been prepared for stockholders' action at the meeting. *Re Kings County Lighting Co. (Case 15158).*

## Merger of Electric Subsidiaries Fair to Minority Interests

THE Securities and Exchange Commission approved a series of transactions relating to the separation of the gas properties from the electric properties of five subsidiaries of New England Electric System. The subsidiaries were combination gas and electric companies. It also approved the merger of eight electric subsidiaries.

The merger was proposed by the holding company to place contiguous electric properties into a larger and more efficient operating unit. It would also reduce a large number of small units composing the holding company system. The commission observed that this intrasystem rearrangement would ordinarily create no problem were it not for the existence of small public interests in the stocks of three of the subsidiaries.

The security holders would receive shares of the surviving company. In addition the holding company proposed to purchase that stock from them for $75 per share. The commission, in holding the offer fair, pointed out that public security holders are at a disadvantage in a company which is part of a larger holding company system. The interests of their particular company may not always be identical with the interests of the system as a whole. When such a conflict arises, the management of the holding company has little choice but to make its decisions in the light of the over-all needs of the system, whatever the effect on the minority holders of the subsidiary.

The commission said that the right to vote for directors is an illusory protection where the bulk of the voting stock is held by the parent company. In administering the Holding Company Act in the light of its duty to protect the interest of investors, the commission must examine the fairness of the proposed offers to minority stockholders of the subsidiaries involved.

The holding company's cash offer was 16.3 times past earnings and 16 times estimated future earnings. It was noted that the estimated future earnings and dividends did not reflect any economies which might result from the proposed merger.

The commission held the cash offer to be fair to the holding company and its stockholders. It concluded that it was in the interest of the holding company and its stockholders to eliminate the minority interests, and that it would be advantageous to the minority interests to accept the cash offer because of the difficulties inherent in their position. *Re New England Electric System et al. (File No. 70-2514, Release No. 10370).*

## Statutory Authority for Motor Carrier Competition

THE commission, upon a finding of public convenience and necessity, may authorize a motor carrier to serve in the territory of an existing carrier, but not on the same route, without affording the existing carrier an opportunity to remedy the inadequacy, said the North Carolina Supreme Court.

Under statute, the only protection against duplication of service is the specified route covered by the existing carrier's certificate rather than the territory it serves. But, the commission said, the controlling factor in authorizing service in an existing carrier's territory is public convenience and necessity. If proposed operations in the territory would endanger or seriously impair operations of existing carriers, contrary to public interest, the certificate should not be granted.

The court found that, in addition to duplication of service, a short distance of existing carrier's actual route had been duplicated, after the commission had found that such duplication was not in the public interest. Ordinarily, the court said, because the distance was short and the revenue involved was nominal, it would pass the question as being too insignificant to command attention. However, this case would become precedent and control decisions in other cases of much greater moment, and such duplication was held to be contrary to statute.

The court, in remanding the case to the commission, pointed out that duplication of service for a short distance on the same highway would not be, in itself, illegal if in the public interest. If such a finding is made, however, the commission may grant such authority subject to such restrictions as will protect an existing carrier with respect to that part of the highway to be traversed by both. *State ex rel. Utilities Commission v. Queen City Coach Co. 63 NE2d 113.*

## Comparison Made between Increased Transit Rate and Rise in Cost of Living

THE Wisconsin commission permitted a local transit company to increase its cash fare from 13 cents to 15 cents and to make other changes in its fare schedule so that it would earn a return of approximately 6 per cent on its rate base. This return would allow sufficient earnings to assure the safety of riders and the improvement of service.

The rates authorized by the commission were 55 per cent over the company's 1939 rates. This percentage was not considered unreasonable inasmuch as the general cost of living had increased 76 per cent in the same period.

The commission ordered the company to continue selling weekly passes but permitted it to increase their price from $1.40 to $1.60. The importance of the pass in speeding up fare collections played an important part in the commission's decision as to its retention. *Re Milwaukee Electric R. & Transport Co. (2-SR-2220, MC-1363).*

## Measured Consumption Properly Prorated after Rate Change

A COMPLAINT against the action of a gas and electric company in prorating measured consumptions on a time basis and applying new rates to consumptions so apportioned for periods on and after the date of a rate change was dismissed by the New York commission. The complaint was based upon a rule providing that charges set forth in a rate schedule by revised leaves, unless otherwise expressly stated therein, apply to service supplied to the customer commencing with the first scheduled meter reading date on or after the effective date set forth in the rate schedule or revised leaves.

The company contended that the general rule was rendered inoperative by a provision contained in the individual service classification leaves to the effect that the rates and the minimum charge "shall apply to all gas service supplied on and after the effective date hereof." The company also asserted that it was required to bill for service supplied prior to the effective date at the old rates and for service supplied on and after that date at the new rates. Since it could not read all meters on one day, proration was its only alternative.

The commission decided that the general rule did not apply because of the specific phraseology in the individual tariff leaves. This decision was said to be in conformity with a statutory provision to the effect that no gas or electric utility shall collect or receive a greater or less compensation for service rendered than is collected or received for any like and contemporaneous service,

and that no such utility shall grant any undue or unreasonable preference or advantage to any consumer. The commission said that if the new rates had not been applied until the first full billing period after the effective date, some consumers would have paid the old rates and other consumers would have paid the new rates at the same time for like and contemporaneous service during the same period.

At the time of the determination of interim gas rates a temporary reduction had been ordered in electric rates. A consistent method must be followed in respect to both. To follow the method suggested by the complainant would require a rebilling of the electric customers with additional charges to them of approximately $1,500,000 as against an estimated reduction of $800,000 in the gas billings. The commission in permitting the tariff leaves to become effective had considered the over-all effect on all customers.

A New York court in Cardone et al. *v.* Consolidated Edison Co. of New York, Inc. (1949) 82 PUR NS 168, 94 NYS2d 94, had ruled that the question whether the company had properly billed for service during the billing period in which the rate increase had become effective by applying a proration formula was in the first instance a matter for decision by the commission and not by the court. *Cardone et al. v. Consolidated Edison Co. of New York, Inc. (Case 15183).*

## Request to Have Utility Status Determined Prior to Rate Hearing Granted

A MOTION by a petroleum and natural gas production company that the Federal Power Commission limit the issues to be considered at a scheduled hearing to a determination of whether the company was a "natural gas company" within the meaning of the Natural Gas Act was granted. The hearing was originally scheduled to settle this question as well as the reasonableness of the company's rates and charges.

The reasons presented by the company in support of the motion may be stated as follows:

1. There is a serious question as to whether the Federal Power Commission has any jurisdiction over the company.

2. This question should be decided before the company and the commission's own staff is required to spend large amounts of money preparing rate evidence which may never be material.

3. If both matters are combined in one hearing, the decision as to the jurisdictional question will be long delayed, thus unduly extending the doubt and confusion now confronting the public and the oil and gas industry.

4. The company is manufacturing many products of vital importance in the present war emergency. If hearing takes up rates as well as jurisdictional questions, many of the company's top men will have to devote time to preparation of rate evidence instead of devoting their time to the defense effort.

The commission, apparently sustaining some of these arguments, made this ruling:

> Orderly procedure requires, and it is in the public interest, that hearing be held upon and a determination made by the commission of the issue of whether Phillips Petroleum Company is a "natural gas company" within the meaning of the Natural Gas Act, before hearing is held upon any other issue in this proceeding.

Commissioner Buchanan, in a dissenting opinion, made this comment:

> While the action of the majority seems to have the merit of attempting to put first things first and also of seeking an orderly procedure in the public interest, it is my judgment that the action may have the opposite result.

He pointed out that whatever deci-

sions were reached on the jurisdictional question, an appeal would be taken so that three years might pass before any decision would be reached on the rate question during which the consumers might be paying excessive rates. He observed that since the Natural Gas Act makes no provision for reparations, the ratepayers would not be able to recover the overcharges.

Finally, he asked the following question:

> If the two issues were heard together in the instant case, as has been the practice of the commission, where do the equities fall?

His answer was that the company would be inconvenienced while its ratepayers might be saving three years' excessive rates. He believed that any doubt in such a matter should be resolved in favor of the public. *Re Phillips Petroleum Co. (Docket No. G-1148).*

## Penalty for Telegraph Service Curtailment without State Approval Canceled

THE Georgia Supreme Court reversed a lower court order assessing a penalty against a telegraph company for closing an office without first obtaining permission of the Georgia commission. The court's ruling was based on the exclusive jurisdiction of the Federal Communications Commission over the service of the company.

The company had operated an office in a Georgia community. The office handled both interstate and intrastate messages. The company obtained permission from the Federal commission to substitute a teleprinter-operated agency in place of its regular service in the community. Thereafter the company changed its service and the penalty suit was commenced.

The court decided that since the Federal commission had exclusive authority over the telegraph company's service, the company was not required to seek further approval after that commission approved its service change. The court stated its position on the jurisdictional question in these words:

> In the enactment of the Communications Act of 1934 (48 Stat 1064), as amended in 1943 (57 Stat 11), it was the intent of Congress that the Federal Communications Commission should have sole authority in the granting or refusing of an application of a telegraph company to reduce or change the type of service rendered by a local office, agency, or facility, where such office, agency, or facility constitutes an inseparable unit engaged in both interstate and intrastate wire communication.

The court concluded by pointing out that to enforce the penalty "under the facts and law of the case would be in direct conflict with the exerted power of Congress of the United States under the commerce clause of the Federal Constitution." *Western Union Teleg. Co. v. Georgia, 63 SE2d 878.*

## Other Important Rulings

THE Louisiana commission held that there was no prohibition in law to prevent a railroad company from requiring surety bonds in connection with the movement of circuses and show outfits, in a case where a railroad contended that it legally transported such organizations under a special form of contract and that it was necessary for its own protection to require the filing of such surety bonds, particularly in view of the fact that many such small show organizations are financially irresponsible. *Louisiana Pub. Service Commission v. Louisiana & Arkansas R. Co. et al. (No. 5468, Order No. 5618).*

The California commission held that its policy of liberality in granting certificates of convenience and necessity applies both to permitted carriers who operate in the territory for which certificates are sought and to certificated carriers who seek certificates in territories not served by them. *Re Merchants Express Corp. et al. (Nielsen Freight Lines) (Decision No. 45232, Applications No. 31450, 31462).*

The supreme court of Texas held that orders of the commission granting specialized motor carrier certificates were void where the orders failed to set forth full and complete findings of fact pointing out in detail the inadequacies of the services and facilities of the existing carriers and the public need for the proposed service. *Thompson et al. v. Hovey Petroleum Co. et al. 236 SW2d 491.*

The California commission held that a motor carrier applying for a certificate of convenience and necessity had failed to establish public convenience and necessity where, notwithstanding that such operations would more adequately serve the local needs of some passengers, other passengers would be subjected to the requirement to make transfers and to pay a combination of fares of two carriers, thereby substantially increasing their transportation costs. *Re Withers & Byrd (San Rafael - San Anselmo - Fairfax Transit) (Decision No. 45193, Applications No. 31087, 31795).*

# Titles and Index

Preprints in This Issue of Cases to Appear in
PUBLIC UTILITIES REPORTS

## Titles



## Index

# PUBLIC UTILITIES REPORTS

*KENTUCKY PUBLIC SERVICE COMMISSION*

## Re Southern Bell Telephone & Telegraph Company

Case No. 2103
March 1, 1951

APPLICATION *by telephone company for rate increase; modified rate increase and reparation ordered.*

*Return, § 24 — Findings necessary in rate proceeding — Maintenance of credit.*

1. It is incumbent upon the Commission, upon receiving a telephone company's application for a rate increase, to examine the reasonableness of the proposed schedule, to determine a rate base, and to allow such rates as will enable the company to operate successfully, maintain its financial integrity, attract capital, and compensate its investor for the risks assumed, p. 3.

*Valuation, § 39 — Reproduction cost.*

2. Reproduction cost of utility property will not be accepted as a rate base but will be considered by the Commission in the determination of value, p. 4.

*Valuation, § 36 — Rate base — Gross average investment.*

3. The Commission will not adopt as a rate base in a telephone rate proceeding the company's gross average investment, although it will give due consideration to this element of value in its determination, p. 4.

*Valuation, § 36 — Telephone rate base — Net average investment.*

4. The net average investment of a telephone company is the most equitable measuring stick to determine the value of its property for ratemaking purposes, p. 4.

*Valuation, § 299.1 — Working capital allowance — Tax accruals.*

5. No working capital allowance was permitted a telephone company where the facts presented at a rate proceeding indicated that accrued taxes alone exceeded cash working capital requirements, p. 4.

*Apportionment, § 7 — Separation of telephone property — Separations Manual.*

6. The separation procedures recommended in the NARUC Separations Manual were adopted in a telephone rate proceeding, notwithstanding the dissatisfaction of the Commission with the results obtained, inasmuch as no other method had been advanced for satisfactorily apportioning the property and expenses of a telephone utility between interstate and intrastate operations, p. 4.

*Expenses, § 37 — Amortization of plant acquisition adjustment.*

7. A sum representing the amortization of a telephone company's plant acquisition adjustment, that is, the excess of purchase price over original cost of plant acquired by the company, was not permitted as an operating expense in a rate proceeding, since it was a nonrecurring item, p. 5.

*Expenses, § 92 — Preparation and presentation of rate case — Amortization.*

8. A telephone company's expenditures for preparing and presenting a rate case are proper operating expenses but should be amortized over a period of three years, p. 5.

*Expenses, § 114 — Revised Federal income tax laws.*

9. The Commission, in considering the operating expenses allowed a telephone utility in a rate proceeding, will take into consideration a new Federal income tax law, p. 5.

*Depreciation, § 4 — Proper rate for telephone utility — Effect of Federal Commission order.*

10. A state Commission will allow a telephone utility to use depreciation rates which appear somewhat high where these rates are fixed pursuant to an order of the Federal Communications Commission, since the adoption of other depreciation rates would in effect question the constitutionality of the Federal law pursuant to which the Federal Commission acted, p. 6.

*Return, § 111 — Telephone — Reasonable return.*

11. A telephone company's rate of return of 5.5 per cent was considered sufficient to enable it to pay necessary operating expenses, interest on indebtedness and dividends to a parent holding company sufficient to enable the operating company to maintain its financial integrity, to attract capital, and to compensate investors for the risks assumed, p. 6.

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*Apportionment, § 7 — Separations of utility property and expenses.*

Statement that the Kentucky Commission is not satisfied with the results obtained by applying the procedures of the Separations Manual in apportioning the property and expenses of a telephone company between intrastate and interstate operations, p. 4.

APPEARANCES: E. W. Smith, General Counsel, Atlanta, Georgia, Jefferson Davis, General Attorney, Atlanta, Georgia, Thomas J. Wood, Doolan, Helm, Stites & Wood, Louisville, Leslie W. Morris, Attorney at Law, Frankfort, and Louis Cox, Hazelrigg & Cox, Frankfort, for the applicant; Gilbert Burnett, Director of Law, City of Louisville, Louisville, Alan N. Schneider, Assistant City Attorney, Louisville, Francis C. Bryan, City Attorney, Mt. Sterling, Arthur Rhorer, City Attorney, Middlesborough, and Carl B. Wachs, Executive Secretary, The Kentucky Municipal

League, Lexington, for the protestants; J. Gardner Ashcraft, Assistant Attorney General, Frankfort, for the Commission.

By the COMMISSION:

*General Statement*

Southern Bell Telephone and Telegraph Company is a corporation chartered under the laws of the state of New York authorized to provide a general telephone service in nine southeastern states, namely, Kentucky, Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee. The company provides comprehensive telephone service, both exchange and toll, in Kentucky through the operation, as of April 30, 1950, of 152 central offices serving 303,000 company-owned telephones.

The Southern Bell Company is an operating unit of the Bell System and all of the stock of the company is owned by the American Telephone and Telegraph Company, a corporation organized under the laws of the state of New York. This stock is not traded in the open market but is retained exclusively by the American Company.

The debt securities of the Southern Bell Company are held by the general public and the stock of the American Telephone and Telegraph Company is likewise widely owned.

The American Telephone and Telegraph Company, which carries on the activities of a holding company in connection with its stock dealings with the petitioner herein, also owns 50 per cent of the Bell Telephone Laboratories, a corporation engaged in research and development for the Bell System. The remaining half-interest in said Bell Telephone Laboratories is owned by the Western Electric Company. The American Company also owns 99.80 per cent of the stock of the Western Electric Company. In addition, the American Telephone and Telegraph Company owns exclusively a real estate corporation, same being the 195 Broadway Corporation, New York city. It also owns and operates the Long Lines Department, which department owns the long-distance lines, and renders a long-distance service in conjunction with other telephone companies.

The American Telephone and Telegraph Company is also the owner, entirely or in part, of 21 other operating telephone companies in addition to the Southern Bell Company.

June 12, 1950, Southern Bell Telephone and Telegraph Company filed with the Commission a notice that it proposed to increase its rates and charges for telephone service rendered in Kentucky to become effective on and after July 6, 1950. This proceeding constitutes the fourth request of the company for a general increase in its Kentucky rates and charges in the postwar era and it is estimated to produce an additional $2,732,000 annually in operating revenues.

Under the provisions of KRS 278.-190 the Commission suspended these rates for a period of 120 days after July 6, 1950, and the company, as provided in said statute, put said rates into effect under bond.

Hearings upon the reasonableness of said rates were commenced on August 8, 1950, and continued to and including February 5, 1951.

[1] Under the Kentucky Revised

Statutes, it is incumbent upon this Commission to examine the reasonableness of these rates, to determine a rate base, and to allow such rates that will enable the company to operate successfully, to maintain its financial integrity, to attract capital, and to compensate its investors for the risk assumed.

Voluminous testimony and exhibits have been introduced by the company, the protestants, and the staff of this Commission.

As provided in the Kentucky Revised Statutes, the Commission has heard testimony and considered, in arriving at a rate base in this case, the history and development of this company, its property, original cost, cost of reproduction as a going concern, and other elements of value recognized by the law of the land for rate-making purposes.

**[2, 3]** As to the reproduction cost new element—after due consideration, the Commission rejected this element of value for the reasons stated in Case No. 1710 (1948) presented by this same applicant and reported in 76 PUR NS 33. There is nothing presented in this case to cause the Commission to depart from its opinion and reasoning expressed therein.

As to "gross average investment" as a rate base which the company presented in evidence, we likewise refused to adopt in 1710, *supra*, and here again, for the reasons therein stated, do not adopt in this case although we have given due consideration to both elements of value.

**[4, 5]** From this record it appears to this Commission that "net average investment," which was presented by the company in evidence, is the most equitable measuring stick to determine the value of this applicant's property for rate-making purposes in this case. The net average investment of the company's property in the state of Kentucky amounts to $43,019,289. However, there is included in this figure $375,682 of cash requirements, or "cash working capital." Cash working capital is generally understood as the amount of cash required by a company over and above the investment in plant and intangibles as will enable it to cover the gap between necessary expenditures in the production of service and collection of the revenues from the sale of the service.

While this Commission does not hold that cash working capital is not a proper element of the rate base when required, from the facts presented in this case, it appears that accrued taxes alone exceed cash working capital requirements of the company, if any, and we are of the opinion that this item should be deleted from the rate base which leaves a total of $42,643,607 as a rate base, which, for the purposes of this case only, the Commission adopts.

*Separations*

Due to the operation and use of the utility's telephone plant for exchange service and for toll service, both interstate and intrastate, it is necessary to separate the utility's property, revenues, and expenses between intrastate and interstate operations. A great deal of testimony was introduced into the record upon the question of separations. This question has been the subject of study for many years by regulatory bodies, both state and Federal.

**[6]** In presenting its case, the company follows the Separations Manual

which is a manual setting out procedures prepared by a joint working committee composed of representatives of the National Association of Railroad and Utilities Commissioners, the Federal Communications Commission, and the American Telephone and Telegraph Company, and published by the National Association of Railroad and Utilities Commissioners in 1947. The Commission is not satisfied with the results obtained by applying the procedures of the Separations Manual. The Commission is convinced that the procedures should be studied further and, after study, is of the opinion that a greater portion of the property and expenses should be apportioned to interstate operations. However, the Commission believes that separations of property and expenses, between intra- and interstate operations, is a problem confronting all the various state and Federal regulatory bodies. Some uniform system is to be desired to solve this problem in an equitable manner. Until such a uniform system is produced and accepted by regulatory bodies, we are reluctant in this case to depart from the procedure most widely used.

*Operating Expenses*

It appears from this record, according to the company's figures, that its total intrastate operating expenses for the test period herein amounted to $17,183,144. However, included in these expenses is the item of "casualty expense." This includes such sums as the company is compelled to expend as a result of damages caused by major casualties such as sleet storms, floods, hurricanes, etc. It appears from the record that during the test period such expenses were abnormally high, amounting to $65,667. From the evidence, based upon the past experience of the company, it would appear that such amount would not normally occur annually in the future. Therefore, the Commission has taken as allowable casualty expense for the utility's test period an average of a 5⅓-year period from January 1, 1945, through the end of the test period April 30, 1950, and finds out annual average to be $14,008. We are therefore of the opinion that this expense should be adjusted by a reduction in the sum of $51,659.

[7] It further appears that there is included in the operating expenses, as presented by the company for the test period, the sum of $23,651 representing the amortization of plant acquisition adjustment, which is the excess of purchase price over original cost of plant acquired by the company.

It is not necessary for this Commission to determine if this were properly included as an operating expense for the test period because, even if it is a proper operating expense, it is nonrecurring and should be excluded for that purpose from consideration in this case.

[8] There was included in the operating expenses for the test period the sum of $38,522, which represents expenses assigned to Kentucky associated with preparation for and presentation of rate cases throughout the nine states in which the applicant operates. The Commission is of the opinion that this expense should be amortized over a period of three years which would permit an allowance for this expense of $12,842 or a reduction of $25,680.

[9] During the course of the hear-

ing and after the testimony in chief covering the test period ending April 30, 1950, the applicant introduced further testimony showing its actual operating results up to and including October, 1950. During this interim, a wage increase in the sum of $161,375 became effective in May, 1950, and new Federal income tax laws were enacted increasing the income taxes to 47 per cent. We have given weight and consideration, from the effective dates of this wage and tax increase, as they affect the operating expenses of this company.

It further appears from the record that an adjustment is necessary in the operating expenses to give effect to the decrease in the pension accrual rate, effective as of January 1, 1951, due to changes in the Social Security tax laws. This results in a reduction in operating expenses of $45,071.

[10] There was evidence introduced of a depreciation study made by the Commission staff which differed from the depreciation rates established by order of the Federal Communications Commission which the company followed. The Federal Communications Commission fixed, by order, the depreciation rates, pursuant to 47 USCA § 220, for the state of Kentucky as well as the other eight states in which the company operates. While the Commission feels that the depreciation rates for Kentucky may be too high, as the study by the staff would indicate, adoption of any other depreciation rates would be in effect questioning the constitutionality of the section above quoted which, to our knowledge, has not been determined by a court of competent jurisdiction.

*Rate of Return*

[11] The company contends that it is entitled to rates which will produce enough revenue to enable it to pay its expenses, including depreciation and tax, and enough more to pay the interest and reasonable dividends and still have something left to be placed into surplus and, that it will require a return of 7.25 per cent to accomplish this result. The rates put into effect and collected after July 6, 1950, were designed to accomplish this result and produce an additional $2,732,000 in revenues. During the course of this proceeding, the company introduced additional evidence, as pointed out in this opinion, that an additional $1,013,000 in revenues, or a total of $3,745,000 in additional revenues would be necessary to meet its requirements and give effect to increased Federal income taxes.

The record discloses that the cost of debt money to the applicant company is less than the average cost of debt money to the entire Bell System. An assumed rate of 5.5 per cent over the entire Bell System would produce earnings slightly in excess of $11 per share on American Telephone and Telegraph common stock. The Commission is therefore of the opinion, from this record, that a rate of return of 5.5 per cent will enable this company to pay its necessary operating expenses, interest on its indebtedness, dividends to its parent company, the American Telephone and Telegraph Company, upon its common stock sufficient to enable the company to operate successfully, to maintain its financial integrity, to attract capital, and to compensate its investor for the risks assumed. And, this Commission con-

curs with the Wisconsin Public Service Commission when it says in its opinion (Re Wisconsin Teleph. Co. [1949]) reported in 80 PUR NS 482, 507:

"The record in this proceeding contains pertinent data relating to the costs of raising capital generally and especially comprehensive information regarding the cost of capital to AT&T Co. which is the source of capital to the Wisconsin company. Upon analysis of this record the Commission concludes that a return of 5.5 per cent on the intrastate exchange rate bases set forth herein is sufficient to maintain the credit of the company and attract capital as necessary to meet the demands for service."

This record discloses that the rates placed in effect on July 6, 1950, were designed to produce on an annual basis additional gross revenues of $2,732,000 on intrastate operations. This amount exceeds a return of 5.5 per cent for the period prior to January 1, 1951, by the sum of $1,476,000 on an annual basis. The Commission is of the opinion that the rates collected under bond for intrastate toll service should be denied in their entirety. An order will be entered directing the company to submit a new schedule of rates eliminating the increase in toll rates collected under bond in their entirety and further designed to effect an over-all reduction in the amount above stated and to refund to persons entitled thereto all sums collected under bond in excess of the new schedule of rates so filed and approved, such rates to be effective as of July 6, 1950, to December 31, 1950, inclusive.

From the record, it appears that on or after January 1, 1951, giving effect to the additional Federal income taxes, it is the company's contention that to earn a return of 7.25 per cent additional revenues in the total amount of $3,745,000 are required. This sum exceeds 5.5 per cent return by the sum of $2,190,000 annually.

Giving effect to the additional income taxes after January 1, 1951, it would appear that the company has collected under bond, in excess of a 5.5 per cent return, the sum of $1,177,000 on an annual basis. The company will prepare and submit to this Commission for its approval a new rate schedule effective January 1, 1951, that will bring about a reduction in the rates now being collected under bond by this amount and refund to those persons entitled thereto any sums in excess thereof, including in their entirety all increase in intrastate toll rates.

An order will be drawn to conform to this opinion.

ORDER

This case came on this day for final decision, and the Commission, Chairman Coleman, and Commissioners Kauffman and Walden being present, and having considered the evidence, and being of the opinion that the rates which the Southern Bell Telephone and Telegraph Company is now, and has been, collecting under bond since July 6, 1950, in Kentucky, should be granted in part and denied in part,

It is *ordered:*

1. In conformity with the opinion of the Commission this day filed and hereby made a part of the record in this case, the adjusted intrastate message toll rates which the applicant

company made effective under bond in Kentucky on July 6, 1950, be and the same are hereby denied.

2. That, in order to give effect to the different Federal income tax rates which have been in effect during the period for which the company has collected the rates herein under bond, and for the future, the company produce and file with the Commission, for its consideration, such schedules of rates and charges for local exchange service in Kentucky as will enable the company to receive, for such services rendered, additional gross revenues in the sum of $1,256,000 on an annual basis, for the period ended December 31, 1950.

3. That, the company prepare and file with the Commission for its consideration and approval, such schedules of rates and charges for its local exchange services in Kentucky as will enable it to collect and receive additional gross revenues, in the sum of $1,555,000 on an annual basis, from January 1, 1951.

4. That the company make refunds, to the parties entitled thereto, of all money and funds collected and received by reason of the rate schedules made effective under bond on July 6, 1950, over and above the amounts herein allowed.

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*WISCONSIN PUBLIC SERVICE COMMISSION*

# Re Footville Telephone Company

2-U-3425
December 29, 1950

APPLICATION *by telephone company for authority to increase rates; authority granted.*

*Rates, § 554 — Telephone rates — Common battery or magneto service.*

1. A telephone company may charge higher rates for rural common battery service than for rural magneto service where conversion to common battery service will require the purchase of new instruments and the construction of additional circuits to divide the present lines, p. 10.

*Return, § 111 — Telephone company.*

2. A return of 6 per cent on the net book value rate base was considered reasonable for a telephone company, p. 10.

By the COMMISSION: The Footville Telephone Company, Footville, Rock county, on October 5, 1950, filed an application with the Commission for authority to increase rates.

Hearing: November 9, 1950, at Madison, Wisconsin, before examiner Roger Bessey.

APPEARANCES: James Kratz, President, Footville, Mrs. Pauline Kratz,

Secretary, Footville, and Glen H. Bell, Attorney, Madison, for the Footville Telephone Company; W. H. Evans, rates and research department, of the Commission staff.

The Footville Telephone Company maintains a common battery switchboard in the village of Footville, Rock county, serving 480 subscribers.

The balance sheet as of June 30, 1950, the income account for the year ended June 30, 1950, and the rate base follows:

| | |
|---|---|
| *Assets* | |
| Investments: | |
| Telephone plant in service | $55,200.52 |
| Current Assets: | |
| Cash and working funds | 221.94 |
| Notes receivable | 99.00 |
| Due from subscribers and agents | 556.35 |
| Accounts receivable | 268.60 |
| Materials and supplies | 1,412.89 |
| Total current assets | $2,558.78 |
| Prepayments: | |
| Prepaid insurance | 130.36 |
| Total assets | $57,889.66 |
| *Liabilities* | |
| Capital Stock: | |
| Common stock | $10,750.00 |
| Current and Accrued Liabilities. | |
| Notes payable | 14,299.52 |
| Accounts payable | 985.34 |
| Customers' deposits | 40.00 |
| Advance billing and payments | 101.56 |
| Accrued interest | 272.97 |
| Accrued taxes | 467.87 |
| Total current and accrued liabilities | $16,167.26 |
| Reserves: | |
| Reserve for depreciation | $23,570.72 |
| Surplus: | |
| Unappropriated surplus | $7,401.68 |
| Total Liabilities | $57,889.66 |

Income Statement

| | |
|---|---|
| Operating Revenues: | |
| Local service revenues | $12,916 |
| Toll service revenues | 6,333 |
| Miscellaneous operating revenues | 109 |
| Total operating revenues | $19,358 |
| Operating Expenses: | |
| Maintenance expense | 4,154 |
| Traffic expense | 6,724 |
| General expense | 4,812 |
| Depreciation | 1,970 |
| Taxes other than income | 922 |
| Income taxes | 188 |
| Total operating expenses | $18,770 |
| Net operating income | $588 |
| Other Deductions: | |
| Other interest charges | 689 |
| Net Income | $(101) |

Rate Base

| | |
|---|---|
| Telephone plant in service | $55,201 |
| Less: | |
| Reserve for depreciation | 23,571 |
| Net telephone plant in service | $31,630 |
| Add: | |
| Average materials and supplies | 1,930 |
| One-half of estimated plant additions for year ending June 30, 1951 | 2,000 |
| Deduct: | |
| One-half of estimated depreciation provision for year ending June 30, 1951 | (1,130) |
| Total investment | $34,430 |

The applicant's net operating income represents a 1.7 per cent return on the net book value of property and plant in service plus materials and supplies of $34,430.

The present and proposed net exchange rates are as follows:

| | Per Month Present | Per Month Proposed |
|---|---|---|
| Urban Service: | | |
| Business | | |
| 1-party | $3.50 | $4.50 |
| 2-party | 3.00 | 4.00 |
| Residence | | |
| 1-party | 2.75 | 3.75 |
| 2-party | 2.35 | 3.25 |
| 4-party | 2.00 | 3.00 |
| Rural Service: | | |
| Magneto | | |
| Business | 2.75 | 3.50 |
| Residence | 2.00 | 2.75 |
| Common Battery | | |
| Business | — | 3.75 |
| Residence | — | 3.00 |
| Extension Telephones: | | |
| Business | 1.00 | 1.00 |
| Residence | .75 | .75 |

The proposed rates are estimated to yield $4,655 of additional revenues per year.

The applicant claims that wage adjustments to bring its wage scale into line with compensation paid for comparable skills in the community will increase operating expenses $2,793 per year. The wage and other adjustments to the income account are as follows:

| | Year Ended June 30, 1950 | Adjustments | Pro Forma |
|---|---|---|---|
| Operating Revenues: | | | |
| Local service .... | $12,916 | $4,655 | $17,571 |
| Toll service ..... | 6,333 | 50 | 6,383 |
| Miscellaneous .... | 109 | — | 109 |
| Total revenues.. | $19,358 | $4,705 | $24,063 |
| Operating Expenses: | | | |
| Maintenance expense ..... | 4,154 | 737 | 4,891 |
| Traffic expense .. | 6,724 | 816 | 7,540 |
| General expense .. | 4,812 | 858 | 5,670 |
| Total above .... | $15,690 | $2,411 | $18,101 |
| Depreciation ..... | 1,970 | 290 | 2,260 |
| Taxes other than income ..... | 922 | 225 | 1,147 |
| Income taxes ..... | 188 | 306 | 494 |
| Total operating expenses ..... | $18,770 | $3,232 | $22,002 |
| Net operating income | $588 | $1,473 | $2,061 |

The pro forma net operating income is estimated to yield a 6.0 per cent return on the net book value rate base of $34,430 after adjustment for plant additions in 1950. The proposed rates do not result in an unreasonable return.

[1] It is noted that the applicant proposes to file a rate for rural common battery service 25 cents in excess of the rate for rural magneto service. At present all rural service is of the magneto type. Conversion to common battery will require purchase of new instruments and construction of additional circuits to divide the present lines. The Commission believes that a differential is warranted.

The Commission finds:

1. That the present exchange rates of the Footville Telephone Company are unreasonable and unjust because of inadequacy.

2. That the net book value of property and plant in service plus a reasonable allowance for materials and supplies is $34,430, which value represents a reasonable and proper rate base for the purposes herein.

[2] 3. That the rates proposed by applicant will produce net operating revenues of $2,061 representing a return of 6 per cent on the net book value rate base found above, and which return and which rates are reasonable and just.

The Commission concludes:

That an order be issued in accordance with the above findings of fact.

# Re Capital Transit Company

P.U.C. No. 3503, Formal Case No. 403, Order No. 3751
January 5, 1951

APPLICATION *by transit company for authority to split its capital stock and to reduce the par value thereof; denied without prejudice.*

*Accounting, § 56.2 — Elimination of intangible items — Creation of capital surplus.*

1. Intangible items in excess of the original cost of a transit company's property should be eliminated from the company's books through the creation of a capital surplus, by reducing the par value of the capital stock of the company, where such items have no value either for rate-making purposes or as assets of continuing value, p. 14.

*Security issues, § 44 — Authorization of stock split-up — Objections — Improper accounts.*

2. The Commission refused to authorize a transit company to split its stock until the company eliminated intangible items in excess of original cost from its books through the creation of a capital surplus by reducing the par value of the capital stock, since it would be contrary to public interest to authorize the issuance of new stock certificates in place of those presently outstanding with the possibility existing that shortly thereafter the recipients of the new certificates would be requested to approve an additional change in the par value in order to provide that capital surplus, p. 14.

By the COMMISSION:

*Nature of Proceeding*

On November 20, 1950, Capital Transit Company (hereinafter referred to as the company) filed with this Commission a petition for approval of an amendment to its charter authorizing it to subdivide or split on the basis of 4 shares for one share all of its authorized and outstanding shares of capital stock, and to reduce the par value thereof from $100 to $25 per share. The company also requested that if a certificate be necessary, the Commission issue such a certificate authorizing the subdivision or split proposed and the issuance of the new stock and the certificates therefor.

In connection with this petition, the Commission by Order No. 3732 ordered that an investigation be instituted to determine whether or not a capital surplus should be created against which the amount of $5,250,000 now recorded on the company's books in Account No. 401.5—Road and Equipment—Unclassified, pursuant to provisions of Order No. 3137, can be charged.

After appropriate notice, a formal public hearing was held on December 15, 1950. The subject matter of the

petition and the investigation ordered were consolidated.

In addition to counsel for the company and for the Commission, people's counsel participated in this proceeding.

In support of its petition, the company contended that its proposal is desirable in order to widen the stockholding and thus increase interest in the company, further its public relations, and broaden the trading base for the stock, thereby increasing its marketability. Expanding upon these points, the company stated that it believes that reduction in the market price of its stock, as would result from the proposed subdivision or split, would permit and encourage broader participation in the ownership of this stock by its patrons and by the general public. The company further states that it believes that ownership of the stock by its patrons would increase their interest in the use of the company's transportation facilities as well as lead them to recommend the company's services to others.

The company contends that the proposed division of outstanding shares will not affect the assets or capital position of the company, nor will it affect the proportionate interest of each stockholder.

It has been deemed necessary by this Commission to consolidate with the problem of the proposed stock split, the matter of eliminating from the property records of the company the sum of $5,250,000, which represents the balance of intangible items that have been determined by the Commission to be in excess of original cost of property. The company contended that these matters were not related, and requested that they be segregated and heard independently of each other. This request was denied by the Commission.

The details of the amount of $5,250,000 are discussed subsequently in these findings.

*Road and Equipment Unclassified—$5,250,000*

In order that the nature of this item may be understood, extracts from previous Commission orders are quoted below.

In its Order No. 3422, dated October 1, 1948, the Commission, among other things, said:

"At the time of the merger of the former Capital Traction Company and the Washington Railway and Electric Company into the Capital Transit Company, the latter company recorded on its books in the Road and Equipment Account the sum of the balances in the Road and Equipment accounts of its two predecessor companies. The amount thus recorded was approximately $22,000,000 in excess of the original cost of road and equipment of the predecessor companies. Of this excess amount, $8,000,000 was disposed of by order of this Commission in 1942, and a further reduction of $1,092,693 was made in 1943.

"On April 27, 1945, the Commission issued its Order No. 2913, which, among other things, directed the company to record in a temporary account entitled 'Road and Equipment Unclassified' the amount of $13,136,889.39. The determination of this amount was premised upon evidence presented in Formal Case No. 336, as well as a consideration of the record in prior proceedings dealing with this matter. Upon completion of the reclassification

of the Road and Equipment accounts in accordance with the reclassification prescribed by Commission Order No. 3087, dated September 23, 1946, the company submitted various proposed entries which reduced the account Road and Equipment Unclassified by $7,889,032.02, leaving a balance in this account of $5,250,000, which balance is under consideration at this time.

"While from the foregoing it would seem that the item of $5,250,000 is the remainder of an aggregate amount of some $22,000,000, it appears that it is traceable to the transaction involving the purchase of the Washington and Georgetown Railroad Company by the Rock Creek Railway Company on September 21, 1895. It further appears that there is no evidence to indicate that this transaction was not at arm's length.

"A review of the transactions culminating in the purchase of the Washington and Georgetown Railroad Company, which was outlined in the record, led the Commission witness to conclude that, in his opinion, the difference between the purchase price and the cost of the property of the Washington and Georgetown Railroad Company represented the purchase of earning power or good will—in other words, an intangible asset.

"The Commission witness expressed the further view that, granting the correctness of recording the intangibles at $5,250,000, or at some greater amount in the first instance, still intangible assets, like physical property, do not retain their income-producing value forever; and that, therefore, proper accounting requires the amortization of intangible assets as well as depreciation of physical assets.

"He also expressed the view that this intangible asset would not have any income-producing power today.

. . . . . .

"As to the company's claim for including in the rate base Road and Equipment Unclassified in the amount of $5,250,000, the Commission sees no reason to change the opinions expressed on this item in prior cases involving a determination of a rate base. There is nothing in the record to show that this 1895 expenditure is of any benefit to present-day users of the company's service. Granting that this transaction was of benefit to the public at the time it was consummated, it does not follow that such benefit would obtain forever. In other words, the cost of this benefit should have been borne by those directly benefited at the time and not by the present users of the service. It cannot now be determined whether or not the rates charged for service during a reasonable period following the purchase were sufficient to provide for the recovery of this investment nor does the Commission believe that it is now necessary to do so. If this investment has not been recovered by this time, it must be considered as a loss from one of the inherent investor risks which are compensated for in the return allowed on equity capital."

As already indicated, the company requested that consideration of this item be divorced from the Commission's consideration and determination relative to the proposed split of the company's capital stock, but this request was denied and the matters were consolidated for hearing.

The company has stated on the rec-

ord that it has no suggestion for the elimination of the $5,250,000 from its books, as it believes that it is a proper item to be retained as an asset of continuing value.

*Commission Jurisdiction*

Paragraph Second of the Unification Agreement (Public Resolution No. 47—72d Congress), authorizing the merger of street railway corporations operating in the District of Columbia—through which merger Capital Transit Company was formed —provides, among other things:

"Said New Company* when incorporated shall become and remain subject in all respects to regulation by the Public Utilities Commission of the District of Columbia or its successors to the extent of the jurisdiction now or hereafter vested in it or them by law over corporations engaged in the transportation of passengers by street railway or bus within the District of Columbia: *Provided,* that before they are recorded, the articles of incorporation and/or any amendments thereto shall be approved by the Public Utilities Commission."

Paragraph 73 of the Law creating the Public Utilities Commission of the District of Columbia (Title 43, § 82, 1949 Code) states:

"That no public utility shall hereafter issue any stocks, stock certificates, bonds, mortgages, or any evidence of indebtedness payable in more than one year from date, until it shall have first obtained the certificate of the Commission showing authority for such issue from the Commission."

The company stated that it was because of these legal requirements that it filed the petition which is the subject of this proceeding.

*Conclusion*

[1, 2] The Commission has found in previous proceedings, which have been made a part of this record, and concludes from the record in the present case, that the item of $5,250,000, presently recorded on the books of the company in Account No. 401.5—Road and Equipment Unclassified, has no value, either for rate-making purposes or as an asset of continuing value. The record does not contain any evidence to the effect that the elimination of this amount from the books of the company will have an adverse effect upon the interests of the investors in the company's capital stock; nor is there any indication in the record that the public acceptance of the company's stock will be impaired thereby. Certainly, such a step would not affect the earning power of the company. Its services to the public would not be affected in any way.

On previous occasions, as shown by the present record, methods by which the amount of $5,250,000 might be eliminated have been suggested. For example, it could be accomplished by a direct charge to earned surplus, either in a lump sum, or through amortization over an appropriate period of time.

It appears to this Commission that a very appropriate method of providing for this write-off is that suggested in the present proceeding; namely, through the creation of a capital surplus by reducing the par value of the capital stock of the company.

The company, in requesting that the matter of providing for the elimina-

* Capital Transit Company.

tion of the $5,250,000 be divorced from the subject matter of its petition, suggested that the Commission, through a separate proceeding, might order the company to dispose of this item at a date subsequent to the approval of the proposed stock split. The Commission is of the opinion that it would not be in the public interest to authorize the issuance of new stock certificates in place of those presently outstanding, with the distinct possibility existing that shortly thereafter the recipients of the new certificates would be requested to approve an additional change in the par value thereof in order to provide the capital surplus hereinbefore discussed. Now is the appropriate time to consummate the corrective steps which the Commission deems to be necessary, particularly from the standpoint of avoiding inconvenience to stockholders, and duplicate expenses.

In view of the foregoing, and in consideration of all the facts of record, the Commission finds and concludes that it would not be in the public interest to authorize the Capital Transit Company to subdivide or split its capital stock unless and until the company makes appropriate provision for the elimination from its records of the sum of $5,250,000 presently recorded in Account No. 401.5—Road and Equipment Unclassified. Therefore,

It is *ordered:*

That the petition of the Capital Transit Company for approval of an amendment to its charter authorizing it to subdivide or split on the basis of 4 shares for one share all of its authorized and outstanding shares of capital stock, and to reduce the par value thereof from $100 to $25 per share, be, and it is hereby, denied without prejudice.

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*MICHIGAN PUBLIC SERVICE COMMISSION*

# Re Michigan Associated Telephone Company

T–552–51.1
January 8, 1951

APPLICATION *by telephone company for authority to increase local and general exchange rates; granted in part.*

*Valuation, § 224 — Rate base determination — Plant under construction.*

1. Telephone plant under construction should not be included in the rate base unless credit is taken in operating income for interest charged on the balances in the plant under construction account, or unless the revenues to be received when the plant under construction is placed in service are included in the gross revenue calculations, p. 17.

*Valuation, § 69.1 — Rate base determination — Payment to affiliate — Excess over original cost.*

2. Plant adjustments representing sums in excess of original cost paid to affiliated interests should be excluded from a telephone company's rate base, p. 17.

*Valuation, § 69 — Rate base determination — Excess over original cost.*

3. Sums representing payments to nonaffiliates for plant in excess of original cost may be either included in the capitalization rate base or the amortization of such sums may be included in the operating expense calculations, p. 17.

*Expenses, § 37 — Amortization of plant costs — Excess over original cost.*

4. The amortization of sums representing payments to nonaffiliates for plant in excess of original cost may be included in a telephone company's operating expenses, p. 17.

*Valuation, § 36 — Rate base determination — Net investment.*

5. A net investment rate base was adopted for the purpose of fixing telephone rates, since it represented the actual prudent investment in plant used and useful in rendering service to the public, p. 17.

*Rates, § 130 — Reasonableness — Inadequacy of service.*

6. The Commission will not approve the application of higher telephone rates at certain exchanges which are receiving inadequate service until those exchanges are rehabilitated to provide a satisfactory grade of service, p. 18.

*Return, § 111 — Telephone company.*

7. Telephone rates yielding a return of 5.79 per cent were considered sufficient to permit the company to secure funds to continue its construction program and to earn a reasonable rate of return upon its investment in plant and facilities used and useful in rendering public service, p. 19.

*Security issues, § 99 — Debt ratio.*

8. A telephone company's capital structure was considered undesirable where its senior obligations, including bonds and preferred stocks, comprised over 76 per cent of the capital structure, p. 20.

*Return, § 26 — Reasonableness — Cost of capital as factor.*

9. The Commission, in fixing telephone rates, is not bound to recognize the high cost of capital resulting from an undesirable capital structure with high imbedded capital costs, but may contemplate a more desirable ratio of debt securities to equity securities and the resultant lower over-all costs of capital, p. 20.

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*Rates, § 130 — Reasonableness — Quality of service — Conversion to dial operation.*

Statement that the Commission, in authorizing a telephone rate increase, urges the company to reconsider its conversion program and plan to attain complete dial operation within the next five years, thereby reducing operating expenses, improving the quality of service, and securing the higher level of rates provided for, p. 21.

(VEALE, Commissioner, concurs.)

By the COMMISSION: Application was filed May 5, 1950, by Michigan Associated Telephone Company, a Michigan corporation, for authority to

make effective throughout its territory new local and general exchange rates designed to increase its annual revenues approximately $965,616.

Hearings were held on the application on June 26, 27, 28, and 29, 1950, following which briefs were filed by parties of interest.

The applicant is now furnishing telephone service under schedules of rates approved by the Commission in its order of December 23, 1948, with the exception of rates at the Holloway exchange which exchange was acquired by purchase subsequent to the filing of the present application.

Applicant represented that its present rates are inadequate to produce a fair and reasonable rate of return. The return has become increasingly inadequate as time passes, since operating expenses have increased more rapidly than revenues, and increased construction costs for expansion and improvment have exerted and will continue to exert a downward pressure on its rate of earnings.

[1–5] As a result of the greatly increased use and demand for telephone service during the past several years the applicant has found it necessary to expend large sums of money in addition to existing plant in order to provide telephone service to those desiring it, and to restore normal plant margins and reduce overloading of the equipment. Applicant states that this program is continuing and will continue so long as it can attract the necessary capital to carry on the program. To secure the money necessary the applicant states that it must sell its securities, and it has represented that securities cannot be marketed on a favorable basis with respect to cost and other conditions unless earnings are sufficient to attract money in a competitive market.

The petitioner presented its case on the basis of its capitalization and the Commission staff adopted the net plant investment (gross plant less the depreciation reserve plus working capital and material and supplies). The only substantial difference between the two methods arises from (1) balances carried in plant under construction, Account 100.2, and (2) balances in plant acquisition adjustments, Account 100.4, or plant adjustments, Account 100.7. Plant under construction should not be included in the rate base unless credit is taken in operating income for interest charged on these balances, or an alternate procedure is that the revenues to be received when the plant under construction is placed in service be included in the gross revenue calculations. Plant adjustments representing sums in excess of original cost paid to affiliate interests should be excluded, and sums representing payments for plant in excess of original cost to nonaffiliates may be either included in the capitalization rate base or the amortization of such sums may be included in the operating expense calculations. For the purposes of this order the net investment rate base presented by the Commission staff will be adopted, for it fairly represents the actual, prudent investment in plant used and useful in rendering service to the public. Allowances for material and supplies and for working capital are included in the rate base adopted.

The Commission staff, through witnesses Hill and Galbraith, and the company, through witness Heusel,

presented estimates of the operating results for the calendar year 1950, and the Commission staff forecast the 1951 results. While there were some differences in the 1950 estimates they are relatively minor and hinge largely upon the computation of Federal income taxes. All witnesses agree that the income is and will continue at an inadequate level unless relief is granted.

[6] In this proceeding a number of witnesses appeared and gave testimony opposing the application for rate relief. Their opposition was not based upon the contention that the company was earning a fair and sufficient return, but rather upon inadequacy of service. The general tenor of the testimony was that inasmuch as the patrons of the company had experienced increased rates in 1948, further increases should be deferred until service had been greatly improved.

The brief of the attorney general for and on behalf of the Commission staff supported the position of such witnesses and argued that the duty of the Commission is twofold: (1), to insure the company of a reasonable return in order that it can continue to attract necessary capital, and (2), to insure adequate service to the patrons of the company.

The Commission accepts and supports such argument of the attorney general and accepts its twofold obligation to the investors and the customers. The question is, however, how best to exercise this twofold obligation. The company has argued that if the service it is presently rendering at some of its exchanges is below normal standards, the defects relate directly to the amount and condition of the plant. Improved and additional service can only be achieved by continuation without abatement of the company's rehabilitation and expansion of plant, which program since the end of 1945 has resulted in gross expenditures of more than $9,866,000 and net additions to plant (gross construction less retirements) of more than $7,900,000 through May, 1950, representing an increase of over 100 per cent in the net plant investment. Much of the additional construction consists of "back-bone" plant: plant needed to relieve congestion and to permit expansion, such as cables and conduit. The benefit of the addition of such plant may not be immediately apparent to customers, but the replacement of long open wire runs and long drop wires will reduce troubles and greatly improve service. Also margins needed for growth and transfers are thus being restored to the general benefit of all customers.

The company has been required by Commission order of August, 1948, to render monthly reports to the Commission of its construction projects showing the expenditures on each project. In the future, in addition to the reports now being filed, the Commission, to keep itself advised as to the long-term rebuilding and conversion plans and current operations, will require the company to provide: (1) a 3-year detailed construction budget and a program for attaining a satisfactory commercial grade of service at all its exchanges; (2) in connection with dial conversions, complete information regarding the type and amount of switching equipment ordered, the date ordered, and the manufacturers' scheduled delivery dates; (3) monthly trouble report summaries, and (4)

monthly summaries of service observations, all of which will be required by separate order of even date.

The Commission has carefully analyzed the testimony of all witnesses relating to the adequacy of service presently rendered at the various exchanges of the applicant. From this evidence the Commission finds that the service presently rendered in some exchanges of the company is below the standard of service which the company should furnish to its patrons. The Commission, among other matters relating to quality of service, considered: (a) what the company has done in each of these exchanges toward rebuilding and expanding its facilities, (b) the type of service, i.e., whether the service was dial, common battery, or magneto, in relation to the number of customers served, (c) the troubles reported at each exchange, and (d) the time required for the operators to answer calls. Accordingly, the Commission will not approve the application of higher rates at certain exchanges until such exchanges are rehabilitated to provide a satisfactory grade of service.

The exchanges selected are shown below together with the number of main telephones at each, and the type of central office and station equipment installed:

| Exchange | 12–31–49 Main Stations | Type of Service |
|---|---|---|
| Bath | 310 | Magneto |
| Bronson | 553 | Magneto |
| Brown City | 411 | Magneto |
| Dewitt | 482 | Magneto |
| Edwardsburg | 601 | Magneto |
| Holloway | 146* | Magneto |
| Laingsburg | 348 | Magneto |
| Milford | 1,209 | Common Battery |
| North Branch | 500 | Magneto |
| Saline | 901 | Magneto |
| Shelby | 850 | Magneto |
| Williamston | 668 | Magneto |

* May 16, 1950.

Estimates of the revenues and expenses at present rates for the year 1951 were submitted by witnesses for the staff. The following is a statement of these estimates:

ESTIMATED 1951 RESULTS
PRESENT RATES

| | |
|---|---|
| Revenues | $4,926,400 |
| Expenses | |
| Maintenance | 1,123,000 |
| Traffic | 1,159,700 |
| Commercial | 315,000 |
| General Offices | 299,500 |
| Depreciation | 710,674 |
| Other | 279,600 |
| Total Operating Expenses | $3,887,474 |
| Taxes | |
| Federal Income | 141,219 |
| Other | 364,800 |
| Total Operating Expenses and Taxes | $4,393,493 |
| Amortization of Acquisition Adjustment | 21,600 |
| Net Operating Income | 511,307 |
| Average Net Plant Investment Including Working Capital | $16,724,894 |
| Rate of Return | 3.5% |

Notice must be taken, however, of the tax revision enacted in September, 1950, by the Eighty-first Congress which increases the effective corporation income tax rate from 38 per cent to 45 per cent. After adjusting the foregoing estimate for the effect of this tax increase the result is as follows:

| | |
|---|---|
| Net Operating Income (as above) | $511,307 |
| Increase in Federal Income Taxes | 20,928 |
| Adjusted Net Operating Income | $490,379 |
| Rate of Return | 2.93% |

[7] The rate increases herein approved will provide immediately approximately $870,000 of additional annual revenue. After provision for increased income taxes the company's net income available will be approximately $969,000, which will provide 5.79 per cent rate of return upon the estimated average 1951 investment. The Commission

finds that the return the company will earn upon the rates herein approved will permit it to secure sufficient funds to continue its construction program and to earn a reasonable rate of return upon its investment in plant and facilities used and useful in rendering service to the public.

The financial requirements of the company consisting of bond interest, dividends on preferred stock and income available for common stock will be met as shown by the following table:

| | |
|---|---|
| Net Operating Income | $969,000 |
| Interest on Bonds ($7,500,000 at 3.1%) | 232,500 |
| Times Interest Earned | 4.2 |
| Preferred Stock Dividend (50,000 shares at $2.70) | 135,000 |
| Remaining for Common Stock | 601,500 |
| Per cent to Common and Surplus | 8.94 |

**[8, 9]** In the foregoing computation refinancing has been contemplated and permanent funding of certain notes payable now outstanding by debt and common stock refinancing has been assumed. The present capital structure of the applicant is such that it does not present desirable financial ratios. Senior obligations, including bonds and preferred stocks, comprised over 76 per cent of the capital structure at the end of 1949. The high percentage of senior obligations has resulted in high income absorption ratios for the company indicating little protection for the senior obligations in the event of a severe decline in earnings. A reason for the high proportion of senior capital appears to be low earnings over the years. However, the Commission is not bound to recognize the high cost of capital resulting from an undesirable capital structure with high imbedded capital costs, and in making rates may contemplate a more desirable ratio of debt securities to equity securities, and the resultant lower over-all costs of capital. In the company's future financing it will be desirable to increase the equity investment ratio in order to afford the senior securities better protection and permit refunding at lower costs.

Under the facts and circumstances of this case, and particularly in the light of the substantial amount of rehabilitation and expansion of plant performed by the applicant within recent years, the Commission is satisfied, and so finds, that the best way in which to discharge its obligation to the public, including both the investors and the subscribers, is to allow rate relief to the extent herein approved and simultaneously continue its investigation of the quality of telephone service being rendered by the applicant in any and at all of its exchanges, taking such further formal or informal action respecting any particular situation or exchange as such investigation shows to be required under the circumstances. As hereinbefore mentioned, in Orders T–552–48.4 and T–552–48.9 of 1948, in the matter of the 1948 application for increased rates, the Commission after finding that the service being rendered by Michigan Associated Telephone Company was below normal standards in a number of its exchanges, required the company to file reports with respect to its proposed construction projects. These reports were required to enable the Commission to be informed of the improvements and additions planned and budgeted by the company to increase the quality and availability of tele-

phone service within the company's assigned areas in Michigan. Also, it was believed that frequent reports on its budget program to a public body would be conducive to increased effort by the company to abate an acknowledged serious service problem.

From the relatively numerous protests lodged with the Commission in this current proceeding it appears that the provisions in the above-cited 1948 orders were not sufficiently comprehensive to accomplish the desired result. Accordingly, the Commission has determined to commence, on its own motion, a continuing investigation and surveillance of the company's service. In a separate order of even date such an investigation is instituted wherein definite objective standards of service are provided and statutory methods of attaining compliance are cited and thereby the Commission will assure the public of better telephone service by permitting the company to continue unabated its rehabilitation and expansion which is under way. The Commission strongly urges that the company reconsider its conversion program and plan to attain complete dial operation within the next five years thereby reducing operating expenses, improving the quality of service, and securing the higher level of rates provided for herein. To do less would appear insufficient, and not in the best interests of the consumers or the investors.

VEALE, Commissioner, concurring: Hearings in this matter having been concluded prior to the appointment of the undersigned as Commissioner but having participated in Commission action subsequent thereto, I concur in the foregoing order.

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*MASSACHUSETTS DEPARTMENT OF PUBLIC UTILITIES*

# Re Berkshire Street Railway Company

D.P.U. 9119
February 2, 1951

INVESTIGATION *on Commission motion of proposed rates for transit company; rate increase authorized.*

*Return, § 7 — Transit company — Cost of capital method.*

1. It is impractical to determine a proper return for a transit company on its outstanding securities, or on the so-called "cost of capital" method, where the par value of the company's common stock of somewhat over $5,000,000 is obviously fictitious and where the company had at the midpoint of its preceding year an outstanding bonded indebtedness of about $400,000, p 23.

*Valuation, § 316 — Working capital allowance — Transit company.*

2. The Commission will not ordinarily consider working capital as part of the rate base of a transit company in the absence of evidence as to the necessity for such an allowance, p. 24.

*Rates, § 152 — Future prospects as a consideration in rate making.*

3. In fixing rates a regulatory body may not look backward exclusively but must to some extent look forward to see the position of the utility in the immediate future, p. 24.

*Valuation, § 225 — Busses to be acquired.*

4. The Commission, in determining the rate base of a transit company, considered as part of such base an expenditure of over $100,000 for new busses, where such busses were ordered but had not yet been received or paid for, p. 24.

*Return, § 108 — Operating ratios for transit company.*

5. A transit company's operating ratio of 97 per cent is higher than that at which it can operate with financial safety, p. 25.

*Rates, § 504 — Transit company — Increase in one area of operation.*

6. A transit company was authorized to increase the 6-cent fare which it was charging in one section of its territory where this fare caused it to suffer an operating loss and was substantially below the fares of comparable companies serving other sections of the state, p. 26.

*Rates, § 253 — Statement of tariff after increase — New tariff instead of amendment.*

7. A transit company which was granted a rate increase was directed to file an entirely new tariff rather than an amendment of its existing one where neither the public nor the Commission would be able to understand in what respects the rates were to be changed if the existing tariff were merely amended, p. 27.

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*Valuation, § 330 — Going concern value — Inclusion in rate base.*

Statement that as a general rule the Commission will not allow a utility to include going concern value in its rate base, since such an allowance entails a departure into speculative grounds, p. 25.

APPEARANCES: Edmund J. Moore. for Berkshire Street Railway Company; Francis J. Quirico, City Solicitor, for city of Pittsfield.

By the DEPARTMENT: Berkshire Street Railway Company, a common carrier of passengers for hire under Chapters 159 and 161 of the General Laws, filed on June 16, 1950, its Supplement No. 1 to its existing M.D.P.U. No. 37. The proposed new tariff included certain increases in existing rates, and its operation was suspended by order of the Department until May 16, 1951, unless otherwise ordered. Hearings were held on this proposal in Boston on September 6, 1950, and in Pittsfield on October 10, 1950.

Respondent's proposed tariff contemplates changes in fare only within the city of Pittsfield. It operates about twenty bus routes in the area affected. Generally speaking, all of its routes run out from the center of the city, which is the only important business and shopping section. The fare zones,

which remain unchanged in the instant proposal, extend from the end of the run to this center. There is no transfer system.

The existing fare structure in Pittsfield was established about thirty years ago, while respondent was still operating trolley cars. It calls for a basic fare of 6 cents per zone, with a pupils' ticket at half fare, or 3 cents. The proposed fare schedule simply substitutes a basic zone cash fare of 10 cents, with provision for tokens at three for a quarter, for the basic 6-cent fare, and a pupils' ticket at 5 cents instead of the 3 cents heretofore in effect.

Respondent's return to the Department for the year ended December 31, 1949, showed gross revenue of $847,193, with a net income transferable to profit and loss of $27,205. It operated for the year at a ratio of 91.99. For the first seven months of 1950, it reports gross revenues of $469,744, resulting in a net income of $10,192 at an operating ratio of 95.74. It was estimated that the operations for the entire year 1950 under existing fares would result in a net income of only $5,600, at a ratio of 96.88 per cent.

[1] Respondent is a wholly owned subsidiary of The New York, New Haven and Hartford Railroad. Its balance sheet has a most peculiar structure, due to the fact that it has never amortized or otherwise disposed of the very heavy losses attributable to the obsolescence and abandonment of its trolley lines. These lines were greatly extended under the New Haven ownership but were, of course, rendered completely worthless by changes in the mode of transportation and were retired from plant account almost twenty years ago, resulting in a surplus deficit which on July 31, 1950, stood at $5,345,578.82. This deficit would have been of even more astronomical proportions had not the New Haven, during its recent receivership, purchased $160,000 par value of the bonds of one of respondent's constituent companies in consideration of the cancellation of almost $8,000,000 in principal and accrued interest of notes of respondent. The par value of respondent's common capital stock is $5,398,100, a value which is now obviously fictitious. It had, on July 31, 1950, an outstanding bonded indebtedness of $387,600. This, in our opinion, makes it impracticable to deal with respondent's situation on the basis of a return on its outstanding securities as suggested in Federal Power Commission v. Hope Nat. Gas Co. (1944) 320 US 591, 88 L ed 333, 51 PUR NS 193, 64 S Ct 281, or, as has been the position of the Department in other cases, on the so-called "cost of capital" method.

The confusion in which we find ourselves as indicated above as the result of respondent's peculiar financial setup illustrates the necessity which we feel to exercise our jurisdiction over the accounting practices of this company. We have suggested revision of the balance sheets of other companies who are in comparable situations, and they have seen fit to clean house accordingly. See Re Northampton Street R. Co. (1950, 1951) D.P.U. 8971, 9339. Respondent indicated, when questioned at the instant hearing, that some advantages accrued to it as the result of its anomalous accounting. We think it should give us more detailed information as to these alleged advantages, and we will order

it to show cause accordingly at a public hearing.

Berkshire's balance sheet as of July 31, 1950, shows a net utility operating plant account of $338,349. This amount represents property of an original cost of $684,215 less accrued depreciation of $345,865. The bulk of the operating property may be further subdivided as between buildings and structures at original cost of $263,420 less accrued depreciation of $61,263, or a net of $202,157, and revenue equipment of original cost of $379,699 less accrued depreciation of $270,968, or a net of $108,731.

The buildings in question were erected almost fifty years ago as car barns. No depreciation was taken on them while they were so used, the first such charges having been made about 1938. We feel impelled to consider them at net book value, even though their assessed value is substantially lower, and even though, had they been depreciated at the current rate, there would be little or nothing left of the original cost in the net plant account as of today. As to the first of these observations, there are many factors entering into assessed value which we do not consider to be pertinent to our present inquiry. See Massachusetts General Hospital v. Belmont (1919) 233 Mass 190, 124 NE 21, among many other cases. The fact that the net plant account would be substantially less had other accounting methods been employed prior to 1938 does not seem to us to warrant disallowance in this case of existing book entries. To go into the accounting theories which lead us to this conclusion would not add to the value of our ultimate findings in this regard.

[2] Both the company and the city of Pittsfield assumed that working capital was to be allowed as a part of any rate base upon which we are to compute a return in this case. There was no evidence as to the necessity for such allowance, and we have held that, in the absence of impelling testimony, we will not ordinarily consider working capital as part of the rate base in traction company rate cases. Re Massachusetts Northeastern Transp. Co. (1950) D.P.U. 8469–A, 86 PUR NS 192; Re Worcester Street R. Co. D.P.U. 8945, July 31, 1950. See Re Rochester Transit Corp. (NY 1948) 72 PUR NS 455. On the other hand, there is specific legislative recognition of the propriety of capitalization of working capital for street railways in our statutes. See General Laws, Chap 161, § 26. We do not consider it necessary to resolve this conflict at this time, since we believe respondent is entitled to approval of its proposed schedules even if, for the sake of argument, this item is ignored.

We find, therefore, that Berkshire Street Railway Company has presently invested in property used and useful in the public service the sum of $338,349 upon which we are required by law to permit it to earn a fair return. See Lowell Gas Co. v. Department of Public Utilities (1949) 324 Mass 80, 78 PUR NS 506, 84 NE2d 811.

[3, 4] Our consideration of respondent's situation must, we feel, be colored to some extent, not only by its existing capital structure, but also by its prospects for the immediate future, particularly in view of the form of order which we contemplate entering in these proceedings. At the hear-

ing in this matter, it appeared that the management of the company had been authorized to purchase ten new items of equipment. We are informed that the orders for these busses were placed last October, and that delivery is expected in February, 1951, and that the aggregate cost will be about $122,000. As will appear later, we believe that still further improvement in respondent's equipment is necessary. It is apparent, from a glance at the company's equipment account, that it should be anticipated that the busses to be retired at the time of such acquisition will be fully depreciated, and that its net plant account will be increased in the very near future by the amount of the additional investment involved in acquiring this new equipment. In fixing rates, it is not enough to look backward exclusively. We are justified to some extent in looking forward to see the position of the utility in the immediate future. Rates are made largely on the basis of the present situation, but we should not forget that their application is prospective, alone. We are of the opinion, therefore, that we should add to the rate base used in this matter the sum of $122,000, and that we should figure the rate of return on an aggregate net investment of $460,349.

On the other hand, we cannot follow respondent's argument that it is entitled to an assignment of $500,000 more as a sort of going or "residual" value because the company has suffered losses due to obsolescence of equipment. This would entail a departure into speculative grounds in the establishment of a rate base which we are unwilling to undertake unless required to do so as a matter of law. It is true that it has been held in the past in some jurisdictions that going concern value must be considered as a property right in determining a rate base. Lincoln Gas & Electric Light Co. v. Lincoln (1919) 250 US 256, 63 L ed 968, 39 S Ct 454. And see annotation in 48 LRA NS 1092. We find some difficulty, however, in distinguishing these cases from the cases which hold that no value is to be assigned to a public utility franchise where such right is nonexclusive and constitutes merely a perpetual permit. Georgia R. & Power Co. v. Georgia R. Commission, 262 US 625, 67 L ed 1144, PUR1923D 1, 43 S Ct 680. Furthermore, there is grave question in our mind whether these cases are entirely consistent with the Hope Natural Gas Case, *supra*. In any event, we do not consider it necessary to decide this question at this time since we do not find that the proposed rates will yield an excessive return upon a rate base computed exclusive of going concern value.

**[5]** We have indicated from time to time, in other cases, some sympathy with respondent's contention that bus company results might more logically be considered on the basis of its operating ratio. See Re Short Line (1950) D.P.U. 9118; Re New England Transp. Co. (1950) D.P.U. 8997; Re Gloucester Auto Bus Co. (1950) D.P.U. 8883. We are satisfied that the indicated ratio for 1950 of 97 per cent is higher than that at which such a company can operate with financial safety.

Respondent estimates that the proposed rates will result in an increase in its annual gross revenues in the amount of $88,000 on the basis of its

1950 figures. In arriving at this figure, it takes into account the estimated dampening effect of the rate increase through loss of riders (see Re Worcester Street R. Co. [1949] D.P.U. 8308, 79 PUR NS 206), but does not allow for any possible further decline in revenue passengers the probability of which seems to be indicated by recent history. The gross passenger revenue for the twelve months ending July 1, 1950, was about $780,000 as compared with about $870,000 at July 1, 1949, and about $945,000 at July 1, 1948. This rate of decline is, as we have before noted, consistent with the general industry-wide trend, both in this jurisdiction and country-wide, and is doubtless due to the competition of the private automobile. See Re Northampton Street R. Co. (1950) D.P.U. 8971. Such gross earnings figure would result in only about $50,000 net after taxes which, on the basis of the 1950 estimated revenue, would result in a total net profit of $55,600. This would mean an operating ratio of 87.4 per cent and a return to the company on the rate base we have found of about 12 per cent.

It is true, as was ably argued on the record, that, due to respondent's peculiar capital structure, the common stock equity at July 31, 1950, resulting from the rate base we have found, is in the amount of only $72,749. It is clear that, even on a "Cost of Capital" basis, it would require a very high rate of return on equity capital to interest an investor where there is an 82 per cent debt ratio and where no dividends have been paid on common stock for nearly twenty years.

**[6]** Respondent has conducted a study of its operations and revenues as respects the fares which it seeks to increase in these proceedings. As the result of certain segregation of costs, this study indicates that respondent is actually operating at a loss in the area affected by the proposed increases. There may be some question as to these allocations, though they were not seriously attacked on the record, but it does appear that at least some of respondent's financial troubles arise out of the existence of this basic 6-cent fare, which is relatively low among comparable companies in this state. We find, therefore, that the requisite additional revenue is properly collectible from the customers affected by the proposed increase.

The low figure presented for the depreciated cost of revenue equipment results from the policy of the respondent as regards replacement of equipment. Its annual return as of December 31, 1949, shows that, of the 70 busses owned by respondent as of that date, 55 were more than six years old. Thirty-three of these busses were then more than 10 years old. It actually listed, as active equipment, 4 busses which were seventeen years old at that time. The average age of its equipment was 8.47 years. From 1945 to 1949, inclusive, it bought 17 secondhand busses averaging eight years old, some being as much as sixteen years old when acquired. During the same 5-year period, respondent purchased only 11 new busses. In this connection, it was argued that the city of Pittsfield has a marked peak in its demand for service, and that the basic regular service is covered by 13 busses, while it requires 38 to 40 busses to cover the peak hours. Ad-

mitting that it is good practice to use old equipment in peak hours, and forgetting for the moment that respondent operates in a number of areas other than in the city of Pittsfield, it seems obvious to us that respondent has been most remiss in its duty to provide the riding public with decent equipment, and that it has been far more anxious to pay off what it could of its bonded debt, most of which was and is held by its parent company, than to invest in new busses. It has retired $1,063,075 in funded debt since December 31, 1945, while it was purchasing a total of only 11 new vehicles. Since 1938, respondent has retired $1,151,425 in par value of trolley company obligations out of bus earnings. It was testified that respondent had 10 new busses on order at the time of the hearing, and that it intended to retire its old equipment as rapidly as possible. The order to be entered herein will be conditioned upon the pursuit of such a program, and it is our intention to see that it is followed.

[7] Berkshire Street Railway Company, the respondent, has filed its tariffs in the form of a supplement to the existing tariff. We are unable to follow the changes it proposes and to understand in what respects the existing tariff is to be amended by the proposed supplement. We think it will be much clearer to us and to the public if respondent railroad file these proposals in the form of a rewritten tariff instead of attempting to amend the existing tariff.

There was a complaint made at the hearing regarding the fare zones as applying to the new Hillcrest Hospital. At the time of the hearing, the additional service suggested was not required since the hospital was not yet opened. We believe that respondent should modify its fare zones in such a way as to offer the privileges suggested, but will not so order without giving the respondent an opportunity to do so voluntarily since we have good cause to believe that the company will be fair in its treatment of such a situation.

The city of Pittsfield filed 37 requests for rulings of law in this case, and waived the time limitation for decision thereon imposed by § 5 of G.L., Chap 25. We grant its request Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 24, 27, 29, 32, 33, and 37. We deny its requests Nos. 22, 23, 25, 26, 28, 30, 31, 34, 35, and 36.

For the foregoing reasons, and after investigation, public hearing, and consideration, it is hereby

*Ordered:* That Supplement No. 1 to M.D.P.U. No. 37 filed by Berkshire Street Railway Company, to become effective July 16, 1950, and suspended by the Department to May 16, 1951, unless otherwise ordered, be and the same hereby is disapproved and disallowed; and it is

*Further ordered:* That Berkshire Street Railway Company file on or before February 12, 1951, to become effective February 18, 1951, a new schedule of rates and charges which will incorporate therein the same modifications and changes included in said Supplement No. 1 and M.D.P.U. No. 35 to be denominated M.D.P.U. No. 38, said tariff to become and remain effective, however, only on condition that the Berkshire Street Railway file with the Department prior to July 1, 1951, a detailed program

satisfactory to the Department covering the years 1951, 1952, and 1953 of new equipment to be acquired during those years; and it is

*Further ordered:* That, in the event of failure of Berkshire Street Railway Company so to file such program or, without adequate cause, to fail to carry out the same as therein specified, the within approval shall be canceled and withdrawn and the schedule of rates and charges heretofore in effect shall be and become the sole lawful rates and charges for service of Berkshire Street Railway Company; and it is

*Further ordered:* That the Berkshire Street Railway Company show cause at a public hearing to be held at the hearing room of the Department, Room 166 State House, Boston, Massachusetts, on March 15, 1951, at 10 o'clock in the forenoon, why it should not be ordered to take the steps necessary in order to eliminate its existing surplus deficit; and it is

*Further ordered:* That, subject to the foregoing, the investigation by the Department in D.P.U. 9119 be hereby closed and terminated.

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*SECURITIES AND EXCHANGE COMMISSION*

# Re Central Illinois Public Service Company et al.

File No. 70-2540, Release No. 10340
January 15, 1951

APPLICATION *by holding companies and electric companies for permission to acquire all of the common stock of an electric utility company serving atomic project; interim order authorizing acquisition issued and holding company integration problems reserved for future determination.*

*Consolidation, merger, and sale, § 22 — Interim approval of stock acquisition — Defense program — Holding company integration problems.*

The proposed acquisition by holding companies and electric companies of all of the common stock of an electric company formed by them to serve a project of the Atomic Energy Commission was authorized immediately by the Securities and Exchange Commission, with resolution of the integration problems under the Holding Company Act reserved for future determination, it being recognized that the national defense program precluded the delays inherent in making a record relating to the integration problems raised.

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*Consolidation, merger, and sale, § 33 — Acquisition of securities — Holding company regulation.*

Statement that the acquisition of securities under § 10 of the Holding Com-

pany Act, 15 USCA § 79j, may not be permitted where there will be a concentration of control of public utility companies detrimental to the public interest or the interests of investors and consumers, where the consideration is not reasonable, or where the acquisition will unduly complicate the capital structure of a holding company system, p. 31.

*Consolidation, merger, and sale, § 24.1 — Acquisition of securities — Holding company regulation.*

Statement that the Securities and Exchange Commission, in passing upon the proposed acquisition of securities under § 10 of the Holding Company Act, 15 USCA § 79j, must find that the acquisition is not detrimental to the carrying out of the provisions of § 11 of the act, 15 USCA § 79k, and that it tends toward the economical and efficient development of an integrated public utility system as defined in § 2(a)(29) of the act, 15 USCA § 79b(a)(29), p. 31.

By the COMMISSION: Central Illinois Public Service Company ("Central"), Illinois Power Company ("Illinois"), Kentucky Utilities Company ("Kentucky"), Middle South Utilities, Inc. ("Middle South"), and Union Electric Company of Missouri ("Union"), have filed a joint application, pursuant to the Public Utility Holding Company Act of 1935 (the "act"), seeking permission to acquire, in the proportions hereinafter described, all the shares of the common stock of Electric Energy, Inc. ("Electric Energy"), an Illinois corporation which the applicants have caused to be organized as a public utility company.[1] Central, Illinois, and Kentucky have also requested that we find them not to be holding companies with respect to Electric Energy.

It is proposed that Electric Energy will construct and operate a 500,000-kilowatt electric generating station and related transmission lines to supply, in part, the electric energy requirements of a project of the Atomic Energy Commission ("AEC") to be located at Paducah, Kentucky. Pending this construction, the applicants will furnish power to AEC from available sources on an interim basis. We are informed that the Paducah project of AEC, which will be dependent upon the facilities of Electric Energy for a material portion of its power supply, is a matter of the greatest importance to the national defense program.

The instant application is unique in the history of the act. While it covers a private venture being privately financed, its purpose is the co-operative building of a defense power project dedicated to serve a vital atomic energy installation of the United States Government.

Speed is of the essence. We have held no hearings and have created no formal record, other than the data contained in the application itself, as

[1] Central, Illinois, Kentucky, and Union are public utility companies. Illinois, Kentucky, and Union are also registered holding companies as is Middle South. Union is a subsidiary of The North American Company, a registered holding company. Illinois and Kentucky are exempt from all the provisions of the act other than § 9(a)(2), 15 USCA § 79i (a)(2). Illinois is exempt by reason of having filed a statement on Form U-3A-2 pursuant to Rule U-2 promulgated under the act, and Kentucky is exempt by virtue of an order of the Commission entered pursuant to § 3(a)(2) of the act, 15 USCA § 79c(a)(2). Re Kentucky Utilities Co., Holding Company Act Release No. 9017, April 19, 1949.

a basis for our interim order of approval. The statutes we administer are flexible enough and our philosophy of administration is sufficiently enlightened to permit us to handle first things first. Our first problem today is the speedy building of national defense. Projects such as Electric Energy are not "business as usual," and merit postponement of "regulation as usual" until the more normal times which should follow the current emergency. Accordingly, we have expedited this proceeding and have shelved for the present certain of the problems the application raises.

The applicants propose to acquire from Electric Energy 35,000 shares of $100 par value common stock at par, for an aggregate cash consideration of $3,500,000. The shares will be divided among the applicants in the following respective amounts: Central 7,000 shares, Illinois 7,000 shares, Kentucky 3,500 shares, Middle South 3,500 shares, and Union 14,000 shares. The applicants estimate that the facilities of Electric Energy will cost approximately $70,000,000. The balance of $66,500,000 will be borrowed from two institutional investors.[2]

The applicants have entered into an arrangement with AEC, to be formalized by contract, pursuant to which Electric Energy will furnish the firm capacity of the proposed station, estimated at 427,500 kilowatts,[3] to the Paducah project. This contract will run for a period of twenty-five years, and will be terminable by AEC at any time during that period upon one year's notice and the payment by AEC of an amount equal to 28 per cent of the cost of all facilities plus certain taxes payable by Electric Energy, less a credit to be computed in accordance with the contract to AEC for retirement of debt.

The arrangement with AEC contemplates that the applicants will utilize any available power not required by AEC. The applicants have agreed among themselves to purchase and pay for this power in the same proportions that they have subscribed for the stock of Electric Energy. The rates to be charged by Electric Energy are intended to produce revenues sufficient to provide for operating expenses, interest at 3 per cent per annum on its debt, and a return of approximately 8 per cent on its common stock equity. The debt will be amortized over a 25-year period.

It is contemplated that certain transmission facilities will be constructed so that the electric utility systems of all of the applicants will be connected, directly or indirectly, with the generating station to be constructed by Electric Energy. Direct interconnections exist among the electric systems of Union, Illinois, and Central; between Kentucky and Central; and between Middle South and the Tennessee Valley Authority which in turn directly interconnects with Kentucky. The generating station of Electric Energy will be constructed on the Illinois side of the Ohio river near Paducah and will be at a site within 100 miles from the southernmost points of the Union, Central, and Illi-

[2] Such borrowing will be the subject of a further application to be filed with this Commission.

[3] The proposed station will include four generating units, each with a rated capacity of 125,000 kilowatts, and with an estimated output of 142,500 kilowatts. The output of one unit is considered as reserve power.

nois electric systems, contiguous to the western end of the Kentucky system, and approximately 175 miles distant from the northern end of the Middle South system.

We may not permit an acquisition of securities under § 10 of the act, 15 USCA § 79j, if we find, *inter alia*, that there will be a concentration of control of public utility companies detrimental to the public interest or the interests of investors and consumers; that the consideration is not reasonable; or that the acquisition will unduly complicate the capital structure of the holding company system of the applicant. Affirmatively, we must find that the acquisition is not detrimental to the carrying out of the provisions of § 11, 15 USCA § 79k, and that it tends toward the economical and efficient development of an integrated public utility system as defined in § 2 (a) (29) of the act, 15 USCA § 79b (a) (29).[4]

The applicants concede that under the standards of § 10 of the act the facilities of Electric Energy "may not in the long run be kept in the systems of all the applicant companies." They contend, however, that these facilities clearly can belong in the system of one or more of them and suggest that final determination of which companies should retain their interests in Electric Energy should be made after the impact of the defense program on their respective systems is known and after the present emergency has passed.

From the record and our administrative knowledge of the operations of these companies, we agree that at least one and perhaps more of the applicants can meet the acquisition standards of § 10, but we do not have before us an adequate record to make conclusive statutory findings as to which of the applicants can retain their interests in accordance with the act. Considering the novel problems raised by the number and geographic location of the applicants, the proof necessary to support such a determination, if required at this time, would necessarily involve comprehensive evidence and extensive hearings. Under normal circumstances we would require such proof before acting upon an application of this character. However, we recognize that the exigencies of national defense preclude the delays inherent in making a record of that nature, and necessitate adjustment of the administrative process to permit construction of these vital facilities with the utmost dispatch.

While the emergency situation warrants postponing at this time our definitive consideration of the above integration problem, that alone would not be sufficient to justify the creation of a capital structure of Electric Energy so obviously at variance with the normal standards of prudent finance. In this case, however, the initial capital structure need not prevent our approval of the proposed acquisitions in view of the contract to be entered into with AEC. The crucial elements of that contract are the government guaranty, in effect, of interest and amortization on Electric Energy's

[4] We need not pass upon the proposed acquisition by Central since it is neither a holding company, nor an affiliate of a public utility company as defined in § 2(a)(11)(a) of the act. Our order herein will dismiss Central's application with respect to its proposed acquisition.

debt so long as the contract is in operation, and the assurance that in the event of cancellation of the contract a material improvement in the common stock equity of Electric Energy would have been achieved or would necessarily follow.

While for the foregoing reasons it is our view that within the framework of the statute and our own precedents it is appropriate to permit immediately the proposed acquisitions of the Electric Energy stock pending our definitive resolution of the issues involved, it is necessary that our order be so conditioned as to provide for a re-examination of this application at a more appropriate time. Such a condition will require them to demonstrate compliance with the applicable statutory standards upon notice given by the Commission. In the event that any of the applicants cannot make a showing at that time justifying the acquisition and retention of the securities of Electric Energy, such applicant or applicants will be required by the condition to dispose of its or their holdings in a manner deemed appropriate by this Commission.

As previously noted, Central, Illinois, and Kentucky have also applied, pursuant to § 2 (a) (7) of the act, for an order declaring them not to be holding companies with respect to Electric Energy. We need not pass upon that portion of the application at this time. Under the provisions of § 2 (a) (7), the filing of an application, in good faith, by a company not a registered holding company automatically exempts such company from any obligation, duty, or liability imposed by the act upon a holding company until its application has been acted upon. Accordingly, Central will be exempt until we act upon its application. In so far as Illinois and Kentucky are concerned, since those companies are registered holding companies they are not entitled to automatic exemptions under § 2 (a) (7). However, as heretofore pointed out, these companies presently are exempt from all of the provisions of the act except § 9 (a) (2).[5] We shall therefore postpone consideration of the portion of the application which requests an order that Central, Illinois, and Kentucky are not holding companies, with respect to Electric Energy, until such time as the further proceedings contemplated herein are had.

[5] See footnote 1 page 29.

# Industrial Progress

*A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.*

## Public Service of Colo. Plans $24,662,000 Program

PUBLIC SERVICE COMPANY OF COLORADO plans to spend a record $24,662,000 for construction this year, of which $5,389,000 was spent in the first quarter.

Next November it expects to put in operation a third 40,000-kilowatt generator at its new Arapahoe plant, south of Denver and a 7,500-kilowatt unit at Grand Junction. In addition, work will be started this year on a 60,000-kilowatt generator for the Lacombe plant in Denver. The latter is scheduled for completion in 1953. The new facilities will boost the system's generating capacity to 440,000 kilowatts, an increase of 127 per cent since V-J Day.

## G-E Introduces All-Electronic Selective Dispatching Method

THE first all-electronic selective dispatching method for two-way radio systems has been developed by the General Electric commercial equipment division in Syracuse, New York, according to a recent announcement.

The method employs radically new equipment to permit "private" conversations between a dispatcher and an individual mobile unit, or a specific group of mobile units within a two-way radio system.

The new equipment allows separation of a system into as many as ten groups. All individuals in a group hear a dispatcher's call, but when the called party responds, all other receivers in the group remain silent.

A mobile operator, under the new method, would hear fewer calls not intended for his attention, reducing the number of call-backs and repeats, and lessening driver fatigue, G-E engineers said.

## Conference on Light to Be Held In Paris in September of 1951

ORGANIZATION of a Conference on Light, to be held in Paris September 26th through 30th of this year, has just been announced by Dr. W. Moriköfer, president of the International Committee on Lighting.

Principal subject of the meetings, according to Dr. Moriköfer, will be "Light and Homes." Speakers will report on recent developments in the application of natural daylight and artificial light in homes, physiological and pathological reactions from fluorescent lamps, germicidal lamps, and other related subjects.

Dr. Moriköfer revealed that plans have already been completed for reports and communications to be made by architects and lighting specialists of many nations.

Organized by the French Committee, under the auspices of the International Committee on Lighting, the Congress on Light will feature, in addition to scientific reports and communications, administrative meetings of the parent organization and a meeting of the Commission of Lighting.

Further information may be obtained from the office of the President at 67 bd. des Courcelles, Paris (8°), or Miss Christiane Weissenbach, Secretary of the Congress Committee, 6 rue Daubigny, Paris (17°).

## I-T-E Names J. W. May Chief Engineer, Switchgear Division

JOHN W. MAY has been named to succeed William Deans as chief engineer of the switchgear division of the I-T-E Circuit Breaker Company, Philadelphia. Mr. Deans has been acting chief engineer since his recent elevation to vice president in charge of engineering for all I-T-E divisions.

As chief engineer, Mr. May will be responsible for all switchgear engineering and development.

## 2,000,000 New Gas House Heating Customers Expected

THE AMERICAN GAS ASSOCIATION recently completed a survey which indicated that nearly one million new gas househeating customers are expected to be added to present lists during the 1951-1952 househeating season and that another 900,000 new househeating customers are anticipated in the 1952-1953 season. The expanded survey indicated that approximately nine million dwelling units were using gas for all househeating purposes on January 1, 1951.

The survey covered 290 gas utility com-

(*Continued on Page* 34)

panies serving 20,407,000 residential gas customers as of January 1, 1951, of which 8,129,000 were being supplied with gas for all househeating purposes. These companies were serving approximately 90 per cent of all residential utility gas customers in the United States. According to their plans as of January 1, 1951, these companies expected to serve an additional 919,000 consumers with gas househeating during the 1951-1952 heating season and a further 811,000 consumers during the 1952-1953 heating season. In addition, six Canadian companies reported that they expected to add 3,900 and 3,700 househeating customers during each of the next two heating seasons.

The heightened expectations were concentrated primarily among gas companies in California, the Middle Atlantic, and East North Central states, with some West Central States adjusting their plans downward. These trends are in part a reflection of the completion of several major pipeline systems and approvals which have been granted for expansions or new lines to Chicago, Detroit, New York, and New England.

## Universal Gas Ranges Originate Gas Cooking Program Over TV

BACKED by Cribben & Sexton Company, makers of Universal gas ranges, a new television program which will promote the use of gas for cooking is being produced in New York and packaged for distribution throughout the country.

The new program, "Sally Smart's Blue Flame Gas Kitchen," is produced by WOR-TV, shown live over Channel 9 and kinescoped by Paramount Television Productions for distribution.

The show is already scheduled for a number of stations throughout the country and will be available free to any station, particularly for sponsorship by gas utilities or gas appliance retailers.

## Louisville Gas & Elec. Plant To Cost $90,000,000

LOUISVILLE GAS & ELECTRIC COMPANY has purchased approximately 350 acres and acquired options on 250 more on the Ohio river below Louisville on which it will construct a power plant costing approximately $90,000,000.

T. B. Wilson, president, told the annual stockholders meeting that preliminary negotiations have been made for the first new turbo-generating unit under this program to meet the electricity needs of the rapidly growing Louisville area. He added that "long range planning indicates that the new plant will eventually have a total of six generators of 100,000 kilowatt capacity each, or a total of 600,000 kilowatt capacity."

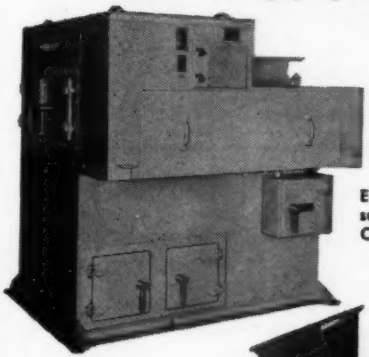
(*Continued on Page* 36)

# TWO WAYS TO STOP COAL WASTE

Installation at mid-western Municipal lighting plant showing Richardson Coal Gate, Coal Scale and "Monorate" Non-Segregating Distributor.

**RICHARDSON COAL SCALES:** One over each boiler automatically gives you a record of coal consumption, by the hour, shift, day, week or month, in stoker or pulverizer firing. You spot inefficient steaming right away, *before* you start paying invisible bills for wasted coal.

**RICHARDSON "MONORATE" DISTRIBUTORS:** An original Richardson development* which absolutely stops coal segregation in stoker-fired installations. The "Monorate" is just what its name implies—the curved top plate, developed in theory and proved in practice, causes *all* the coal, both lumps and fines, to descend at the same rate so there is no tendency for lumps to separate. You get the same mix across your stoker hopper as you had at the bunker outlet so that most efficient combustion is assured. *Patent Pending No. 2,258,516



EE-39 Richardson Automatic Coal Scale.

Richardson "Monorate" Distributor Showing Patented Design of Top Plate Which Keeps Lumps and Fines from Separating.

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Monorate, non-segregating coal distributor—Bulletin No. 1349

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**Richardson**

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5314

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## Washington Gas Light to Build New Storage Facilities

WASHINGTON GAS LIGHT COMPANY plans to construct standby gas storage facilities costing $7,100,000 near Rockville, Maryland.

The facilities would accommodate 70 million cubic feet of natural gas in underground steel pipes and 30 million cubic feet of propane-air gas above ground.

Construction is expected to begin in July, with completion scheduled for the spring of 1952.

## Southern Indiana Gas to Spend $12,000,000 On New Unit

SOUTHERN INDIANA GAS & ELECTRIC COMPANY will spend $12,000,000 for construction of the first unit of its F. Bayard Culley steam power plant on the Ohio River east of Evansville.

The 40,000-kilowatt generating unit, scheduled for operation in 1954, will increase the system's capacity to 160,000 kilowatts.

## $4,250,000 Program Planned by Mountain States Power

MOUNTAIN STATES POWER COMPANY plans to spend about $4,250,000 for construction this year to supplement the $20,000,000 spent on its postwar expansion program in the years 1946 through 1950.

While the bulk of the expenditures will be used to expand the company's electric plants in the Northwest, a substantial but undetermined amount will go for additions and improvements in its water and telephone systems.

In the water department, it is adding to purification and storage facilities, installing larger pumps, and enlarging mains. To accommodate its fast-growing toll and local telephone operations, the company is converting to automatic dial equipment and expanding cable and wire facilities.

## G-E Plans $6,500,000 Addition To Generator Plant

GENERAL ELECTRIC COMPANY announced plans for building a $6,500,000 addition to its $30,000,000 Schenectady, New York, turbine generator plant.

The plant now has one million square feet of floor space and the new extension will add more than 80,000 square feet to the building. Glenn B. Warren, manager of G.E.'s turbine divisions, said the new facilities will increase the plant's annual potential output of generating capacity by about 1,250,000 kilowatts to a peak of 5,500,000 kilowatts annually. Last year it produced 54 turbine-generator units. With the new addition it will produce about 73 annually, Mr. Warren said.

## PROFESSIONAL DIRECTORY

• This Directory is reserved for engineers, accountants, rate experts, consultants, and others equipped to serve utilities in all matters relating to rate questions, appraisals, valuations, special reports, investigations, financing, design, and construction. » »



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## PROFESSIONAL DIRECTORY (*continued*)

## PROFESSIONAL DIRECTORY (continued)



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## PROFESSIONAL DIRECTORY *(continued)*

## PROFESSIONAL DIRECTORY *(concluded)*

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*Fortnightly advertisers not in this issue.

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